The Province of Alberta

IN THE MATTER OF THE PUBLIC INQUIRIES ACT

—and—

IN THE MATTER OF a Commission, dated the 12th day of October, A.D. 1938, to inquire into matters connected with Petroleum and Petroleum Products

Commissioners:

The Honourable MR. JUSTICE McGILLIVRAY
(*Chairman*)

—and—

L. R. LIPSETT, ESQ.

Session:

CALGARY, Alberta FEBRUARY 1st, 1939

VOLUME 28

INDEX

Page.

VOLUME 28 - February 1st, 1939.

WITNESSES:

EXHIBITS

....

....

MR. NOLAN: Mr. Chairman, I am wondering if you would permit me to place in evidence in the case this volume compiled by the National Petroleum Association, being a digest of pipeline rates on crude petroleum oil on file with the Interstate Commerce Commission. I would not like it to be put on the record in the sense that it would need to be copied as an exhibit but it is a book that has a lot of information in it and it might be helpful to the Commission if it could be filed in some way that the necessity for copying it would not arise. My friend agrees with me I think that it is a book of some assistance to the Commission.

MR. FRAWLEY: I would look upon it in the same light as Exhibit "98" that we were discussing yesterday, it is of no more value than that but if you did think you are going to make, include in your report some suggestions as to regulations of pipelines, then perhaps there is some material in here which would be of value to you.

MR. NOLAN: Of course the rate for every pipeline company in the United States is in here.

MR. FRAWLEY: Yes, and as the Chairman said yesterday, I desire to disclaim responsibility in regard to that, we do not know that any of those rates were ever scrutinized or regulated by any regulatory body so they lose their value.

MR. NOLAN: Not necessarily. That might be done by agreement as between the parties and it is just as valuable as if it was done by a regulatory body.

MR. FRAWLEY: No, except as it was mentioned yesterday.

MR. NOLAN: There is nothing to indicate that that rate is improper, yet.

THE CHAIRMAN: Are you objecting to the exhibit going in?

MR. FRAWLEY: No I am not objecting but I am calling to the attention of the Commission really the observations you made yourself yesterday.

THE CHAIRMAN: Mr. Harvie.

MR. HARVIE: I think possibly it might be helpful to the Commission.

THE CHAIRMAN: All right, Exhibit "130".

(DIGEST OF PIPELINE RATES ON CRUDE PETROLEUM OIL HERE FILED AS EXHIBIT "130").

THE CHAIRMAN: Mr. Nolan, we will take it as an Exhibit as a whole but will you be good enough to direct our attention to those parts which you think should receive our particular attention?

MR. NOLAN: I will.

THE CHAIRMAN: The Commission is presumed to be familiar with the evidence before us but we do not want to read volumes, those parts of volumes which really have no bearing.

MR. NOLAN: Perhaps I should refer you, sir, to the particular pipelines which have been mentioned in evidence, giving you the page at which the reference is referred to.

THE CHAIRMAN: Tell me first, how you describe the exhibit.

MR. NOLAN: A digest of pipeline rates on crude petroleum oil on file with the Interstate Commerce Commission,

and compiled by the National Petroleum Association. I direct your attention particularly, if I may please, to the Arkansas Pipeline Corporation at page 2; the International Pipeline Company at page 49; the Montana Pipeline Company at page 57 and the Toronto Pipeline Company at page 119. Thank you sir.

MR. PLOTKINS: Pardon me, Mr. Chairman, may I make an observation with regard to this last Exhibit?

THE CHAIRMAN: Yes.

MR. PLOTKINS: The rates that are mostly reviewed in that book were set by bodies in the United States on the basis of railway competition. In other words to my knowledge whenever a pipeline company applied for a rate or wanted to change the rate either up or down the practice has been to allow the railways or any other transportation agent to be represented and make their views known and it is my understanding that when fixing rates these bodies have always taken that into consideration.

THE CHAIRMAN: Well Mr. Plotkins is still under oath, are you content gentlemen, to have ~~that taken~~ as part of his evidence, the statement which he has just made or will I call him back to the witness stand.

MR. FRAWLEY: I would like to ask him something about it.

THE CHAIRMAN: All right, just come up Mr. Plotkins.

LEON L. PLOTKINS, having been recalled, examined by Mr. Frawley said:

Q THE CHAIRMAN: Just so that we may consider what you have just said, we will ask you to give it as evidence.

Q MR. FRAWLEY: Will you just repeat again what you were saying about this Exhibit "130".

A I am saying that as I have followed the matters which come up before the various commissions in the territories in which I was interested, namely Montana and other districts that I was interested in, I found, at least to the best of my recollection, the railways were there to oppose in some cases, in other cases to make demands themselves and that the principles that the commission were guided by was competition, not cost. In this case we are endeavouring, at le st that is my understanding that the Commission is endeavouring to fix a rate based on the cost of the service, plus a profit.

Q Now you say that when these rates, pipeline rates which appear in this Exhibit "130" were fixed, first of all you say they were fixed by some regulatory body, is that it?

A No, I am not saying that but to my knowledge in Montana that is the case.

Q THE CHAIRMAN: In those cases where a regulatory body has intervened?

A That is right.

Q They have heard the railway?

A Have heard the competitive companies.

Q And they have taken into account competition rather than cost?

A That is my understanding.

Q MR. FRAWLEY: So that we will be clear, you are dealing with the regulatory commission in Montana chiefly?

A Well not chiefly.

Q You are dealing with it in any event?

A Yes.

Q And that is the Montana Railway Commission?

A Well I do not know whether it is a Railway Commission. I

think that may be right, I have not the tariff in front of me.

Q That is, it is the public service body of the State of Montana?

A That is it I think.

Q Probably comparable to our Public Utilities Commission?

A Yes.

Q You have attended sittings of that Commission?

A No, I have not attended sittings but I have read some of the proceedings as reviewed in the Trade Journals.

Q Now those proceedings would be precisely what again, so that I understand?

A Rate hearings. Whenever there has been, there have been numerous rate changes in Montana and in other places.

Q An application?

A And in each case---

Q Yes.

A And in each case when the pipeline company decided either to increase or decrease the Commission heard the other competitive factors before deciding on the rate.

Q And you gather from your reading of the reports of these deliberations in the Trade Journals?

A That is correct.

Q You do not know, you are not saying then that any of the particular rates which we will find in this book were the subject of consideration by the regulatory body?

A Well I am saying in connection with the rate or the companies which were pointed out by Mr. Nolan, that that is to my knowledge in most case in connection with these companies, the facts.

Q Now do you say that the rate which the Illinois Pipeline sets

and which you know something about because you are paying it now?

A Yes.

Q That that is a rate which has been reviewed, scrutinized and fixed by the Public Service Commission of Montana?

A To the best of my knowledge.

Q You cannot refer us to any report?

A No, I am not prepared, I am not in a position to.

Q That is perhaps more my job than yours in any event?

A Yes.

Q The Toronto Pipeline Company operates a line or did have a line from Coutts to Cutbank, rather from Cutbank over to Coutts?

A That is correct.

Q And do you say that that rate has been set by the Montana Public Service Commission?

A I am more familiar with that rate, I am in a position to speak with relation to that in detail. Mr. J. W. Johnson, who is in charge, are we referring to the Montana Pipeline now.

Q We are referring to the Toronto Pipeline.

A That is right, that is the British American Oil Company's pipeline.

Q Yes?

A I know Mr. Johnson very well for, oh, 15 or 16 years and in my discussions with him at various times in the last, in that period, the question of rates came up and he informed me that there was opposition from the railways in connection with lowering the rates.

Q THE CHAIRMAN: Against a reduction?

A Yes, and that is how, that is one of the reasons why I make

these observations.

Q MR. FRAWLEY: Yes, you know of course that the Toronto Pipeline carries no oil except for the parent company, the British American Oil Company?

A Well that was the case at that time, yes, but nevertheless, the railways opposed a reduction in rate because it would give a precedent for another pipeline and there were three pipelines in that field.

Q Now do you know that the rate which was charged by the Toronto Pipeline up to the time it discontinued moving oil in any quantity, had been a rate which had been scrutinized by the Montana Public Service Commission?

A I gathered that from my talks with Mr. J. W. Johnson. I was not interested sufficiently to go into the details.

Q THE CHAIRMAN: The witness is not presently speaking of his own personal knowledge?

A No.

MR. FRAWLEY: I think that is true.

A And I think, Mr. Frawley, it is for you to find out.

Q MR. FRAWLEY: Yes perhaps it is, that is all I have to ask.

Q MR. NOLAN: I was going to ask you, Mr. Plotkins, you are saying that cost was not taken into consideration in fixing these rates, you do not know that, do you?

A Well that is my knowledge, in the report, that costs were not taken as the main factor in deciding the rate.

Q There was evidence led on the question of cost?

A I cannot say as to that.

Q I wonder if you would just pardon me for just a moment, you are very familiar with this book, are you not?

A No, I have never seen it before.

Q Perhaps you will look at page 42, it is headed "The Illinois Pipeline Company", I see there is a rate there effective August 20th, 1930?

A Yes.

Q "Wells within territory of the Illinois Pipeline Company's gathering system in the Kevin-Sunburst Montana field"?

A Yes.

Q Then the designation is Sweetgrass, being the International boundary?

A Yes.

Q And the rate is set out at 15¢?

A Yes.

Q Is that right?

A It is not right now, that has been reduced in the last two or three years there have been numerous, a numerous number of reductions in the Kevin-Sunburst field.

THE CHAIRMAN: What page is that?

MR. NOLAN: This is on page 42.

WITNESS: What is that date?

MR. NOLAN: The order is effective the 20th of August, 1936.

A Well there have been some changes since that time, conditions have changed everywhere in the Kevin-Sunburst field, particularly with regard to the pipeline.

Q You mean it has changed by order of the Board of Railway Commissioners?

A Well the ratew have been reduced.

Q By the order of the Board of Railway Commissioners in the State of Montana?

A That is to the best of my knowledge.

Q Have you the Illinois pipeline tariff?

THE CHAIRMAN: With respect to these various rates, are they all up to 1936, Mr. Nolan?

MR. NOLAN: Yes.

MR. FRAWLEY: The book itself is dated---

THE CHAIRMAN: What is the date of the book if it is dated?

MR. NOLAN: The last date in it is as to a memorandum dated the 21st of July, 1938 and it is signed by the Editor, Harry Elkins.

THE CHAIRMAN: Anything to indicate, without examining each one as to when those were filed?

MR. NOLAN: Yes, because they say in each instances when the order fixing that rate was effective but whether it became ineffective after that time is what Mr. Plotkins is saying now.

THE CHAIRMAN: Yes.

Q MR. NOLAN: And you mentioned the tariff of the Illinois Pipeline Company?

A Yes.

Q You have one, have you?

A I had one and I had all the tariffs of the Illinois and the International but for some reason or other it is gone, I cannot find it. I would like to have had it in connection with questioning Mr., in connection with the rates at this time but I have not got it.

MR. NOLAN: That is all, thank you.

THE CHAIRMAN: All right, thank you.

MR. FRAWLEY: Answering your question, Mr. Chairman, the first thing in this document, Exhibit "130" is a preface and the first paragraph seems to answer your question.

"This Digest contains a compilation of the pipeline rates for line-haul transportation, together with gathering charges on crude petroleum oil, or mixtures thereof, as described in the tariff on file with the Interstate Commerce Commission on January 15th, 1938. It also contains a list of the companies filing tariffs with the Commission and names and addresses of offices of such companies."

And then the next paragraph perhaps.

"This Digest does not refer to all the rules and regulations of individual lines with respect to receipt, transportation or delivery. We have digested briefly such portions of the rules and regulations as seemed directly to affect the total rates or transportation charges. In this issue we have added rules providing for deductions for evaporations, sediment, etc. Ordinarily the rules or regulations referred to are not quoted verbatim. We have summarized the salient matters in the rules to which reference is made. Where the interpretation of a rule or regulation is in dispute the tariff should be consulted."

And that is it, so apparently there has been an attempt to bring it up-to-date and then each of the pipeline companies are indexed so it can be easily followed.

THE CHAIRMAN: Thank you.

MR. NOLAN: That brings us to the point, sir, where we were to consider the budget of this company for the coming year.

THE CHAIRMAN: Unless Mr. Plotkins wants to examine Mr. Coultis.

MR. PLOTSKINS: Yes, I would like that privilege.

SAMUEL COULTIS, having been re-called, examined by Mr. Plotkins said:

Q MR. PLOTKINS: I am going to examine Mr. Coultis on the assumption that the Public Utility Board will set a rate and regulation.

THE CHAIRMAN: No, you need not make any assumption whatever. Just ask him any questions you like. We are here dealing with the pipeline rate, as you know, and any questions which you think have any bearing on that you are quite at liberty to ask, Mr. Plotkins.

Q MR. PLOTKINS: In regard to Clause 4, I am not quite clear as to what that means, am I to understand that one of your men goes to the Sunburst tank and finds out the centrifuge, the percentage of sediment and so forth and you find that it is 1/8th of 1%, you will pass that as good oil, is that correct?

A We will not make a deduction.

Q You indicated a deduction besides the 1%?

A No further deduction on anything, 1/8th or any---

Q But if it is over 1/8th you will make a deduction?

A Yes.

Q Over and above the 1% pipeline deduction?

A Yes.

THE CHAIRMAN: And Clause 4 which you are speaking of is in Exhibit "98"?

MR. PLOTKINS: The regulations.

Q THE CHAIRMAN: You understand that, Mr. Coultis?

A Yes.

Q MR. PLOTKINS: Now is that customary or is there any necessity for it?

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

A You have the same privilege, sir, when you accept oil from the terminal tankage, to demand that your B.S. and W. is not above 1/8th of 1%. If it is not above 1/8th of 1% you will not be allowed a deduction for that portion but if it is above that point you will be allowed a deduction for any B.S. and W. which is shipped from the terminal tankage to your property, you have the same right as I demand in accepting your oil?

Q I understand that is a working clause but what I am asking is, is there any necessity for that further complication when there are the usual rules that 1/2 of 1% maximum B.S. and W. is considered acceptable oil and at the other end the same?

A I have not found it necessary in my operations in Turner Valley to handle oil carrying water or B.S. above 1/8th of 1%. It is a simple matter to settle that out if reasonable precautions are taken and it is very hazardous in pipelines, as you know, to handle water or other foreign properties.

Q Yes, that is correct but why then not set it at 1/8th of 1% and not create complications?

A Because some producer may be careless or wish to leave that water in and I do not propose to handle it if I can help it but if it necessary to handle it if he insists on shipping watery oil or we do get it in the line we will make a reduction above 1/8th of 1%.

Q I do not quite understand, if you say that over 1/8th of 1% between 1/8th and 1/2 it might injure the line?

A Yes.

Q Well now why not set it at 1/8th and that is all there is to it?

[illegible]

A We do set it at 1/8th as free, as no deduction.

Q As no deduction?

A Beyond 1/8th of 1%, no amount will be deducted from the amount of oil shipped except---

Q So that if I am right then, you will accept oil with a maximum of 1/2 of 1%?

A 1/8th of 1% with a maximum of 1/2.

Q With a maximum of 1/2 of 1%?

A Yes.

Q And you will make no deduction if the oil does not contain more than 1/8th of 1% B.S. and W?

A Yes, that is right.

Q But you will make a further deduction if it is above that?

A Yes.

Q But you will not refuse to accept it?

A No.

Q All I can say is, I will put that in the form of a question, don't you think that is a further complication?

A No, I do not think it is a further complication because it will be up to me to take that water out in transmitting somewhere, either in the tank, in the fields at the main station or in the terminal tankage here, I do not expect to resell that water or B.S. so I expect to lose it.

Q You feel that in the normal course of handling, it will settle out?

A That is right, sir, and if it does not it will cause a great deal of trouble.

THE CHAIRMAN: Perhaps it would be well to put on the record what is meant by "B.S." and "W.".

Q MR. PLOTKINS: B.S. and W. stands for bottom settlings, and water.

Q THE CHAIRMAN: That is right, Mr. Coultis?

A Yes.

Q MR. PLOTKINS: In Clause 7 yesterday you made a statement that it did cost your company money, at least caused further expenses to install a power pump which a well that was not in a position, due to lack of pressure, to push, to pump the oil into the lateral or into the gathering lines?

A Yes.

Q Well now if that is the fact, why would you not follow the ordinary pipeline practice and pay these companies that perform that service to you free---

THE CHAIRMAN: Well Mr. Plotkins, may I just make a suggestion to you to facilitate your questioning. You say it is a settled practice, ask him if that is the practice, you see he is the witness and you are at present a cross-examiner so put it in the form of a question.

MR. PLOTKINS: All right.

Q MR. PLOTKINS: Is that your understanding that that is the practice for pipelines to pay the producers who pump the oil for them so much a barrel?

A Will you state your question over again please?

Q Well are you aware that in Montana, which is comparable to our situation here, that the Illinois Pipeline for instance pays us 1¢ a barrel to pump the oil into their gathering system?

A No sir.

Q When we supply the power and the man?

A No sir, I do not know how they gather oil in Montana.

Q Well then do you think that where a producer here in the Turner

Valley field supplies that and relieves you of some cost, that we should not be compensated?

A I have never had a producer in Turner Valley complain, all this man does is simply open the valves and let the pump run, he doesn't repair it, if he knocks a pump to pieces he is not interested to repair it or take any particular care of it.

Q That is true, but that man has to be paid compensation under the Workmen's Compensation Act, he has to be paid and so forth, all the other expenses are there?

A I believe they take care of that for the work which he performs for the company employing him.

(Go to no. 3441)

Q In connection with Clause 9. It says here that the quantities of oil are measured in accordance with Rule 7. Said quantities shall be computed from correctly compiled tank tables showing 100% of the full capacity of the tanks which may be used from time to time. You are aware that tank trucks are now strapped by the Department of Weights and Measures?

A I believe so.

Q As to quantity. In other words they are strapped and a table written out and a stick provided and a Government stamp on it. You are aware of that?

A I am not operating any tank trucks, sir. In the years past when I did operate tank trucks I believe we did our own strapping. At least we were handling oil for our own Company and I am not familiar with the method or any Government measurements on trucks today, sir.

Q You are not aware of that?

A I am not familiar with it.

Q Are you aware of it?

A No.

Q Have you any experience to give us of other pipe line companies in connection with the strapping of tanks? Have you any knowledge of what has happened in the past in the United States with a number of pipe line companies in connection with the strapping of tanks?

A In just what way do you mean?

Q I am going to make it a little plainer. Has it come to your knowledge that a number of pipe line companies in the United States had been faced with demands and lawsuits for refunds of overages due to strapping, due to the

tanks being improperly strapped, and causing overages?
A No, I have no direct knowledge on that, sir.
Q Do you read the Trade magazines, the National Petroleum News for instance?
A Some of them, yes sir.
Q You do not recall some short time ago, a year or a year and a half, a number of articles giving the experience of a firm that started up to strap as an independent body tanks of crude oil producers and them went to the pipe line companies and on the basis of the re-strapping made claims and collected them?
A No, I have no knowledge of it.
Q Is there a possibility that part of your overages in this particular pipe line are due to improperly strapping tanks?
A No sir, I do not think so.
Q Do you feel that the tanks are all perfectly round?
A I feel that the tanks have been strapped in the most efficient manner possible. I have never had one customer in my experience complain of the strapping or the measurement of his oil from any one of the tahks.
Q I am not saying you have, but I am asking you if you feel that strapping is absolutely perfect?
A As nearly as possible to get it.
Q As near as possible with the methods you now employ?
A Yes.
Q Although the methods do allow for a variable fact?
A That depends on how fine you want to take it.
Q And how accurate you want to be?
A Not how accurate we want to be. We want to be as

accurate as it is possible to be.

Q As accurate as you can be with the particular method of strapping?

A Yes. This is the best method we know of.

Q If a tank is not perfectly round or the diameter is not the same all the way up and down, under your present method of strapping, do you allow for that?

A We strap each ring.

Q And that according to your knowledge is the accurate way of doing it?

A We believe so.

Q Do you believe or do you think that if you measured that tank with a meter, in other words if you took a meter and put it at the outlet and allowed the liquid to go through inch by inch you would not have a much more accurate measurement of that tank

A I would want to be very sure that that meter was accurate.

Q Well I am assuming that the meter is a Government inspected meter, tested and sealed, and that it varies within the tolerances of the Weights and Measures Department, which is 1/10 of 1%.

A I would insist you have that meter checked before that test and also at the completion of the test.

Q We will assume all that. We will have to assume we have a Government body that checks meters?

A Yes sir.

Q So that for the time being we will assume you had a meter that was as near perfect as present knowledge permits, and you measured your tank under those conditions, would it not be reasonable to say that you would have a much more perfect table to work with?

A I do not know.

Q You do not know? You would not express an opinion?

A I would not till I tried it.

Q THE CHAIRMAN: Are these meters in common use?

A We have no meters operating. I do not know of a large oil meter operating in the field at the present time. There are small meters used in loading tank trucks

Q But I mean in other fields?

A There are some meters used here in loading tank trucks. We are not using any meters, large meters.

Q Are they used in other fields do you know?

A I believe so.

Q In preference to strapping?

A Well I cannot say, Sir, I do not know. There may be companies using meters and preferring them, I cannot say that. A meter must be constructed of the proper materials to withstand sulphur corrosion before it is safe to use it. I have used meters in the plant, for plant operations, and unless they are constructed of non-corrosive material they soon become very inaccurate, due to corrosion.

Q Can meters be constructed of non-corrosive material?

A Yes.

Q That is practicable?

A Yes, I think so.

Q Are they costly?

A I believe a meter for a 4 inch line, I believe different makers quote them from $1200.00 to around $1500.00, which would operate on a 4 inch line at 1000 pounds pressure. I haven't any figures on other sizes.

Q If meters were used generally would that involve a meter at each well?

A If all meters were used at tanks it would require a meter at every storage tank in the field and as many as six at some wells.

Q But one at every well?

A Yes.

Q Would that be right?

A Yes, one at least at every well.

Q MR. COMMISSIONER LIPSETT: And suppose you had a meter at every well, what would be the comparison then between your test meter and the strapping system as to accuracy, would there be much difference?

A I cannot say, Sir, whether there would be any difference until that check was made. We believe the strapping is as nearly accurate as we can get it. A new meter properly checked might show some slight variation. I would not be able to say until I checked it.

Q You do not consider it would be very much in any event?

A Oh no, I do not.

Q MR. PLOTKINS: Would it be necessary to have a meter at each well? Would it not be sufficient just to check or make tables on each tank with the meter and then there is no further use for the meter. You would then have an absolute means of measuring your tanks at each pump?

A What would you do, flow several wells into one tank?

Q No. Strap each tank as you are now doing, and instead of strapping by hand, strap with a meter. In fact do what the Government does. They take a meter and strap

each truck tank and then they keep the meter at the Inspector of Weights and Measures, and then we get a certificate and a table, and that is for practical purposes all that is required. Would not that be sufficient in your case?

A Yes, if it was a Government tested meter.

Q Then there is no necessity for a 4 inch meter at each tank or at each well?

A I did not say there was any necessity of a 4 inch. I was asked the direct question what the prices of the meters were and the only price I had was on the 4 inch meter.

Q You are aware at the present time that especially the smaller refineries and distributors are using meters on everything, almost exclusively.

A I believe they are on the tank trucks. I do not know beyond that.

Q Tank trucks. The refineries, you are aware of that? You are also aware they have been doing it for a number of years in handling Turner Valley products, highly corrosive products?

A Handling crude oil?

Q Turner Valley raw naphtha for instance, which is considered reasonably corrosive?

A Yes.

Q You are aware of that?

A Yes.

Q We have meters and we have worked them and they have been tested by the Government periodically every year as the law calls for?

A Did you ever find one out of order?

Q Oh yes. They need cleaning the same as any other piece of machinery.

A What was in them?

Q Coated?

A With what?

Q With deposits, settlings.

A With sulphides, tank bottoms. Do you think they were accurate while they were coated inside?

Q Yes, within the tolerance or variation. Well, I am going to say this, we will leave that to the Government to decide. But it is a fact that you can use meters?

A Yes. But I asked you when a meter is coated with sulphide and its working parts are coated and its gears, the volumetric capacity of that meter, do you think it is accurate?

Q It is changed......

A How long is it accurate after the inspector tests it?

Q My experience, and I have some 16 years of experience with meters is that the degree of inaccuracy is so small.....

A But there is inaccuracy there?

Q Oh there is, but it is so small, and today in 95 cases out of 100 within the tolerations allowed by the Government. And in case of these tanks for strapping purposes, would it not be the fact.....

A What toleration is allowed by the Government on an inaccurate meter?

Q They allow 1/10 of 1%. So take that meter....

A At the time they test it?

Q At the time they test it?

A Yes. It is not very accurate is it?

Q Well that is much more accurate than any human method of doing it?

THE CHAIRMAN: Well we have tried many things in this that if we are going to carry on the examination as a dialogue you will remember you are under oath too?

MR. PLOTKINS: Yes sir.

THE CHAIRMAN: That is all right. Go on.

MR. PLOTKINS: You will notice Mr. Coultis asked me the question as to.....

THE CHAIRMAN: Quite so. I have not interfered. I just want to get at what you both know. Go ahead.

Q MR. PLOTKINS: It says here corrections shall be made for temperature, adding or deducting at the rate of 1% for each 25 degress in temperature below or above 60°. Mr. Coultis, am I to understand this concerns oil within the range of 38 to 65?

A Yes.

Q That method of deduction?

A Yes sir.

Q Well don't you consider that excessive?

A I believe you will find that in the blue books used by practically all the United States pipe lines at the present time.

Q That is the present allowance for tolerance. Well is it not a fact that you have at your disposal, the same as we have, the National Standard Petroleum Oil Tables that will give you the actual volumetric displacement?

A Yes sir.

Q By temperature?

A Yes sir.

Q Why not use that within certain ranges?

A I think it is all right. I think it is accurate. It is just a matter of which method you use.

Q The reason I asked you that, Mr.Coultis, is that that 1% for every 25 degrees would be quite fitting with the high gravities such as naphtha, but when it comes to 40 gravity oil it would be practically 50% more than is actually required, and that would be a further gain to the Pipe Line Company.

A Are you sure it would be a gain?

Q Well, yes, if you take the factor of 1% to 25° of displacement, and the displacement was actually 1% for every 15°?

A Mr. Plotkins, do you think that this method of temperature measurement or correction would be used by all of the pipe lines in the United States if it was very inaccurate?

Q Well I am going to ask you another question to answer that. Do you know of another pipe line company that is similarly situated, and handles oil all the way from 85 gravity, as is the case in Turner Valley, plant naphtha, down to 38 gravity, and applies the one factor for the whole range?

A No, I do not, Mr. Plotkins.

Q Mr. Coultis, I notice in this tariff - I do not know if it is an omission, but there is no provision in there for the delivering at the terminal end, the Calgary end, to tanks of the British American and Lion Oil

S. G. Coultis.

Refineries. Is it your intention to make a provision?

A To deliver?

Q Yes?

A At the present time we are only delivering in tanks. That is handled by the Imperial Oil Refinery. At the present time we are only delivering into the terminal tankage.

Q Is it your intention in view of the fact the British American is now building its refinery, and we have our own refinery built, is it your intention to provide for the delivery to these two refinereiss?

A I believe that will be necessary, Sir, as occasion arises.

Q Now Clause 15. Am I to understand that this clause provides where the tenderer has arranged for longer storage than the 30 days mentioned here, the free storage, that his oil will not be sold for transportation and other charges?

A State that again please.

Q I say am I to understand in Clause 15 that where the Lion Oils for instance arranged with the tenderer, which is the Royalite pipe line, to have its oil stored for a period of 2 months we will say, would the company feel compelled under this clause at the end of 30 days to notify me and sell my oil if I did not accept delivery?

A In other words, if you made a definite agreement to store your oil for 30 days, and were willing to pay the demurrage rates, would be break our word and turn around and sell your oil within that limit?

Q That is what I want to know, under this clause?

A Not if I have anything to do with it. I will say no.

Q Then this clause does provide that where storage is arranged for we will pay the regular rates of storage provided for in the tariff, and only at the end of that period will the company be in a position to offer that oil for sale to someone else to defray its own charges?

A Assuming you have paid your demurrage.

Q Assuming we have paid the storage in advance, is that it?

A No, I did not say that.

Q Well, that is the only way because we would have to pay in advance for you to consider it paid, even though you have the oil.

A Yes.

Q In your tanks. Now that is not customary is it in Montana?

A I do not know about what the custom is in Montana at the present time.

Q You are not aware in Montana, the Illinois Pipe Line - to take that as a comparison - will store oil for 2 months, 3 months and 6 months, and at the time of delivery will then ask for not only the transportation charges but also the accumulated storage charges. Or under the tariff they have the privilege of billing us for the storage charges from month to month, but not the transportation charges. They are only payable when the oil is actually delivered. Are you aware of that?

A No, I am not aware of the operations at the present time in Montana.

Q Would not you think that would be a much more equitable arrangement than this system?

A I do not see anything that should embarrass you in this system.

Q We have overlooked one thing in Clause 11. On all oil tendered for delivery and remaining undelivered at the rate for the first 10 days, beyond the free period of 7 days, of 1/10 of 1% per barrel; during the next 10 days at the rate of 2/10 of 1 cent per barrel and thereafter at the rate of 3/10 of 1 cent per barrel for each day of 24 hours, or fractional part thereof. Am I to understand that we are not going to have, under this proposed tariff, 30 days free storage?

A No sir, you will have 5 days.

Q We are going to have how much?

A 5 days. No, 7 days, pardon me.

Q 7 days free storage?

A Yes.

Q The first 7 days?

A Yes.

Q And after that the demurrage starts?

A Starts.

Q I did not understand it that way last night after reading it and that is why I asked you these questions on it. Would you object to having the Commission set a pipe line rate that will include 30 days free storage? What is your views on that?

A How much oil would you like to store?

Q Well we will come to that later. Assuming the quantity of oil was acceptable?

S. G. Coultis.

A I would object with the present amount of terminal tankage I have today.

Q You would, in spite of the fact your records show that your tankage was empty most of the time, comparatively empty?

A I still would object because you would soon fill it.

Q By whom? With whose oil at the present time would you fill it?

A Possibly yours.

Q Possibly ours?

A The B.A.,or the Imperial Oil. Those are the three people with whom I am at present dealing.

Q But experience at least has shown that neither the Imperial Oil nor the British American nor the Lion Oils has used any appreciable amount of storage space. In the light of that experience would you object if conditions continue the same?

A Well I would want an assurance that conditions did not change.

Q Would you not have that within your control if you stipulated the amount of oil that you would accept for storage?

A No sir. I think this set-up is very fair to both the producer or the shipper and the Pipe Line Company. The charges start at a very small charge, if he wishes to move his oil or store it for a short length of time, and then they come up to a set rate.

Q You think that 3/10 of 1 cent per barrel after so many days is a very small charge?

A I think it is a very reasonable charge. You admitted a

few minutes ago that we were handling very volatile oil. You have a range from 38° Baume to 64.9. Would you ask me to hold that oil during the summer months or during the season when it is necessary to keep the oil fairly warm to prevent congealing and carry that oil in tankage for an indefinite period at a less figure than that. Would you like to do it?

Q Now let us review that. You say that there is a wide variety of oil. Now how much in percentage of oil you transport is above 45? In other words....

A It varies.

Q A very small percentage is it not?

A That is variable, it is varying all the time.

Q But it is very small. In fact the Gas and Oil Journal gives the figures, the comparisons?

A Well, that is all right.

Q And they are very small in percentage. Another question I would like to ask you, is not most of this light oil, 95% of it, for the benefit or for the account of the Imperial Oil Limited?

A What do you refer to, naphtha?

Q Plant naphtha and separator naphtha, that you transport?

A Not that that goes into crude oil, that could not be separated out for any one company.

Q You mean the amount that is necessary to mix in order to clear the lines?

A No sir.

Q What do you mean by the amount that goes into crude oil?

A Any discoloured naphtha that goes into the crude oil or light products that remain in the crude oil.

S. G.Coultis.

Q How much in percentage would that be?

A That varies, I do not know.

Q A very very small percentage would it not?

A It is. Your crude oil is light crude and very volatile.

Q But you are aware, you know something about refining, or at least you know something of the character of the oils in storage,- it is your business to know - you are aware that 40 gravity oil will absorb a reasonable quantity of very light products and hold them without any loss, is that not so?

A No.

Q Is not that the theory of absorption gasoline, in extracting the gasoline from gas?

A Not without any losss

Q I am not saying without any loss, but without any appreciable loss, any more loss than the ordinary crude, Is that a fact or do you dispute it?

I will dispute it. There will be considerahle loss.

Q Is it not a fact that the Imperial Oil at the terminal heats the crude, keeps it warm in the winter time for their own purposes?

A I do not think they keep it warm for their own purposes.

Q They keep steam.....during the early part of the Hearing we were told the Imperial Oil kept the crude oil in these storage tanks warm and that was one of the services they performed?

A Quite true. The steam comes from their boiler plant.

Q So that they keep it reasonably warm?

A Yes. I do in the main tank farm and in every other tank in the field.

S.G.Coultis.

Q I did not hear you.

A I have heaters under all of the tanks in the field, both at the trunk line head, or the main tank farm, and the field tanks.

Q But you are not concerned with the losses once it reaches Calgary are you?

A Certainly. In the terminal tankage, yes sir.

Q In the terminal tankage the Pipe Line Division takes the loss, the evaporation loss?

A Yes sir.

Q Do you know if the Imperial Oil has any means of connecting the vapour lines from these big tanks to their own absorption units so as to save the vapours?

A No. Would you state that question again?

Q Have they a gas recovery system in their plant at the East Calgary Refinery of the Imperial Oil?

A I am not familiar with all of the refinery.

Q You do not know?

A But I know there are no connections for vapour recovery on these tanks, on the three tanks I am interested in.

Q Now to come back to this question of storage, You object, at least you would object in principle to the 30 day free storage period?

A Yes sir, I would.

Q Would it not be reasonable to expect a Pipe Line Company, such as the Royalite, under the circumstances that we have to operate here, weather conditions, to act not only as the carrier but as the storer of oil?

A Would I object to that?

Q No, would it not be reasonable to ask the Commission

S. G. Coultis.

or the body that is going to regulate the pipe line as a common carrier?

A How much oil would you want to store?

Q Now that is something I am not prepared to go into at this time, because I do not know. I am asking you if the principle would not be reasonable, in view of the fact.......

A In order to answer that I would want some definition of what you mean by that and how much.

(Go to Page 3458.).

Q What I mean by when the refiner would be able to supply the same percentage of oil, using percentages, because it is the only way of arriving at it, that any other refinery of these three, Imperial, British American and the Lion Oil, would be, in the ordinary course of their business, required to accumulate during the winter time for the spring and summer seasons, you understand that your refinery, at least the Imperial Oil, carries a reasonable stock?

A I assume that all refineries do.

Q All refineries?

A Yes.

Q Now, the pipeline under this tariff could make some money, at least it could produce a profit storing oil?

A At these rates?

Q Yes?

A I do not think they make much money, Mr. Plotkins.

Q It would not cover the cost?

A I would like some experience on the amount of loss over a length of time to answer that question.

Q Well, is it not.......

A I hope it would cover the cost, but I do not think it would make any appreciable profit.

Q You are assuming it would not cover the cost because you would store only a very small amount of oil?

A I am not assuming that it would not.

THE CHAIRMAN: He said he assumed it would cover the cost but not make any appreciable profit.

Q MR. PLOTKINS: If larger quantities of oil were stored in these particular tanks which we have under consideration, would it not be a fact that the revenue from that source would increase?

C2
2

A Naturally.

Q So that, well, I will leave that, it is your intention to make provision in this proposed tariff for means of delivering to pump cars and tank trucks?

A It may be necessary later if the occasion arises, for to justify the expenditures.

Q I know, but you are submitting a tariff that we all assume it is going to stand up for a year or two, we are not going to run to the Commission every week, and you know that the problem exists and should it not be provided for, you can set the conditions but you should provide for it, you can set the conditions and say "We will not do it except in certain volumnes or under certain conditions", but you should provide for it, is it your intention to do it?

A At the present time it is being provided through the present loading rack, and that is handled by the Imperial Oil Company, who have loading racks there available, pumps.

Q Yes, and don't you think it should assume, that duty should be assumed by the Royalite Oil Company as a pipeline carrier?

A I think it will be if the occasion arises.

Q And you think you will make provision for that under this proposed tariff?

A I would assume that we would.

Q Is it your intention to provide regulations setting the conditions under which you will make a connection to a well at one end and a connection to the refinery or other delivering, or other purchaser at this end, there is nothing in the present regulations to cover that, is it your intention to provide for that?

A We are providing for the field end of it now, sir.

Q In here?

A No.

Q There is nothing said about it?

A No.

Q Don't you think you should set the conditions so that everyone will know them and not expect you to do something which you feel is unreasonable?

A I think probably those conditions would vary over such a wide range that it would be very hard to set them out in one statement.

Q Well, you are aware that the Montana Pipeline Company sets the conditions, they are faced by similar facts that they have to go wherever there is a well, but they have definite conditions laid down under which they must go, if the particular well does not comply or is not in a position to, then they do not have to make any connection, and that is what I am talking about, do you intend to provide for that?

A As stated, I believe that the variation would be so wide that it would be hard to make one condition apply.

Q Well, could you not encompass the realities, the present realities, and forget about the probable features?

A Yes, it might be done.

Q And the same thing at this end, do you intend to provide for connections, that is, provide the conditions under which you will be ready to make connections to a refiner's tank or to purchasers' tanks that may want to ship out somewhere else; in other words, a refiner from Saskatchewan wishes to have a loading rack in Calgary, its own private loading rack, and asks you to connect a direct pipeline so

C2
4

that he will not be faced with extra charges, do you intend to provide for that, the conditions under which you will do it?

A I think we will meet those conditions satisfactorily as they arise in each instance.

Q No, you will not be in a position, you will be faced with a body telling you what to do, and what I would like to know, is it not wise at this stage to provide for those things so that the Commission will decide on them and settle them, and then we will not have to come back and ask for this and for that when we know those conditions will arise?

A I assume that the Commission will probably set certain rules or pass on any proposed tariff, this is a proposed brief of a tariff. There may be additions, or subtractions from it.

Q Is it not a fact that this was briefed for the guidance of the present Commission?

A That is right, sir.

Q And why not include all the factors that we know of and not leave something in the air?

A There is nothing left in the air intentionally, sir.

Q I am not saying intentionally, I am not imputing any motive to them.

A No. We cannot meet every condition which will arise in briefing one of these regulations or it would be so cumbersome that it would be impossible.

MR. PLOTKINS: Well, that is all, thanks.

THE CHAIRMAN: Any more questions?

Q MR. NOLAN: I was going to ask Mr. Coultis, arising out of Mr. Plotkins' questioning, it was suggested

to you that no appreciable amount of storage was used now, have you at least, Mr. Coultis, have you any figures on the storage?

A We were carrying around 190 to 198 thousand barrels during the past week in the Calgary terminal of crude oil.

Q What about the tankage in the Valley itself at the tank farms?

A I believe the highest day last week was 105 thousand barrels total.

MR. NOLAN: All right.

Q MR. FRAWLEY: Mr. Coultis, what were you carrying 190 thousand barrels last week for?

A Beg pardon?

Q Why were you carrying 190 thousand barrels of oil in storage?

A It had not been moved or shipped from the terminal tankage, it was still carried in those tanks.

Q The Royalite Oil Company, the pipeline company?

A The pipeline company.

Q That does not include Mr. Moore's stock?

A That includes all the oil which I have shipped into the terminal tankage.

Q Did it belong to the Imperial Oil Company?

A Part of it.

Q And the British American Oil Company; and the Lion Oil Company?

A Yes.

Q Only those three?

A Yes.

Q So that 190 thousand was what Mr. Moore had, either for himself or to ship to his Regina refinery?

A 190 thousand was the oil that was transported for the three different Calgary refineries.

Q Yes, and as it passed out of your hands, we need not go over it all again, none of it was belonging to the Royalite

C2
6

Oil Company?

A No, but it was still in our custody.

Q In these storage tanks?

A Yes.

Q And partly in the I. O.'s tank too, not only in yours?

A In the three tanks.

Q In these 2-80's?

A The 2-80's and the 40.

Q Which total 200 thousand barrels, and in that storage there was 190?

A Yes.

Q 190 thousand in the last week?

A Yes.

Q Now, Mr. Coultis, can I invite you to supplement this proposal, Exhibit "98", by indicating what you are prepared to do for the independent refiner that wants to take crude at the Calgary end of the pipeline by tank truck?

MR. NOLAN: I really do not think this is the witness who should be asked to answer that question. We have just been told that the oil does not belong to this company, of which this witness is the manager of 'n department, that is for your refining man to answer.

MR. FRAWLEY: If that is the answer, you do not think that is part of what you should deal with?

MR. NOLAN: Perhaps, I am wrong.

Q MR. FRAWLEY: Do you consider that that is a proper part of the proposal, I have been calling it, or a suggested tariff and regulations which you have filed?

A To make provisions to load tank trucks?

Q To make provisions in some fashion by the pipeline division for the supplying of crude oil to independent refineries?

A A provision could be made if there is enough demand for it but there has never been a demand that I know of.

Q MR. NOLAN: What we want you to tell, Mr. Frawley, Mr. Coultis is, is it part of the pipeline operation to provide for these loading facilities at the Imperial Oil refineries?

A No.

Q When oil is being shipped to other refineries, having been purchased from the Imperial Oil?

A No.

Q I mean is it part of the pipeline operation, Mr. Frawley wants to know?

A No, it is not;

Q MR. FRAWLEY: In other words, you accept Mr. Nolan's suggestion that if anybody is to do it it will be the business of the Imperial Oil?

A Yes, at the present time.

Q And not the Royalite Oil Company?

MAJOR LIPSETT: Supposing somebody wants to buy oil from an independent oil well in Turner Valley and transport it through the pipeline to the end of the line in Calgary, not into the Imperial refinery, and then send it on to Regina, would they not be entitled to do that without passing it through the Imperial Oil or paying a commission to the Imperial Oil, I think that is what Mr. Frawley had in mind?

Q MR. FRAWLEY: Well, what do you think about that, Mr. Coultis?

A Well, it would not be physically impossible to do that, it can be done if the demand justified it.

Q You see, Mr. Coultis, I have a very high regard for your views, and you have been in this business now for a long

time and I would like to have the Commission have your views, supposing there is a problem, an independent refiner is having difficulty getting crude oil, we had evidence about that yesterday, some difficulty, he naturally, I presume, wants to get the advantage of the low transportation rate, that is, by pipeline, as against by truck; in any event, he has a problem, and presumably you are as familiar with it as anyone; now, what are we going to do with this independent refiner who wants to buy crude oil, have you any suggestion to make, having in mind when he goes to the Valley he finds under the Exhibit I filed yesterday, one well which is not under contract to the British American, the Imperial, the Gas & Oil Products, and the Lion Company, what are we going to do with that fellow, Mr. Coultis?

A Would it not be better to have him load his oil at one of the three refineries from their storage tank, as he is taking it in very small amounts, and possibly would wish to load any hour out of the twenty-four hours.

Q You suggest then, dealing with your organization, that he had better go to the Imperial storage stocks in the East Calgary refinery and load there?

A It would possibly save a great deal of duplication.

Q Yes?

A In jobbing out very small quantities.

Q The alternative would be that you would have to construct some sort of storage on your own account, separate from the Imperial Oil, and make deliveries as a pipeline company to these independent refiners?

A It would entail considerable expense in the way of pipelines to a location, loading racks, a man or men constantly on

duty to load it any hour of the day or night.

Q Yes, then there would be another complication, that this oil passes out of your hands, the ownership of it, to the Imperial Oil as soon as it is purchased?

A Yes.

Q And it is not really your oil thereafter?

A Yes, we do not buy it.

Q Your suggestion then is, and, as I say, I appreciate what you have to say, that these independent refiners should make their bargain with the Imperial Oil Company's refinery stocks department?

A Not necessarily with the Imperial, with any of the refiners.

Q Yes, I mean, quite, the Imperial or the British American, as the case may be.

A Yes.

Q THE CHAIRMAN: Or the Lion, I suppose?

Q MR. FRAWLEY: Yes, or the Lion?

A Yes.

Q And not deal with you as a pipeline company?

A Well, I do not think it would make for a good working arrangement.

Q No, well, that is all right, and then he would get, presumably, the posted field price plus the pipeline charge plus some loading charge?

A Yes.

Q And that is all there would be to it?

A Yes.

Q It is not unsurmountable, this difficulty of delivering it in small quantities in tank trucks, is it?

A No, sir, it is not impossible.

Q Do you know whose line it is from the end of the Royalite

pipeline to the Imperial Oil storage tanks, or is there, what is the fact about that?

A From the end of the Royalite pipeline?

Q Yes, to the Imperial Oil storage tanks in the East Calgary yards?

A In other words, the lines running between the terminal tankage and the refinery tanks?

Q Oh, well, no, I didn't mean that, I think I know what you mean, the Royalite pipeline trunk line really ends at the storage tank in the Imperial Oil refinery yards?

A Yes.

Q The Royalite Oil Company then goes on to the Imperial property, you might say?

A Yes.

Q Well, it, in fact, does go on the Imperial property with its trunk line and its trunk line terminates on the Imperial property?

A A short distance in, yes.

Q About how many feet?

A I cannot state that accuragely, sir.

Q Now, there was one thing, you now propose to give these people seven days' free storage, that is the Imperial and the British American and all of your customers?

A Yes.

Q And then after that to charge for it?

A Yes.

Q That will bring some revenue in now, which you have not had before?

A A small amount possibly, yes, depending on how much oil they handle.

Q Yes, and that will be an off-set against the rental which you are now paying to the Imperial Oil, of $35,000.00 a

year; now, I do not know whether this is very important or not, Mr. Coultis, but I have been struck with this fact, that essentially this is what Plotkins was doing, is it not, he has some oil from the Sunburst Company down there?

A Yes.

Q He turns that into the Royalite pipeline division at a certain gravity?

A Yes.

Q It is taken to Calgary, it is probably, it probably becomes common crude, even in the gathering lines, and in your trunk lines?

A Yes.

Q And then it gets to the Imperial Oil storage stocks in East Calgary and it is there definitely then common crude?

A Yes.

Q And then he wants some and he is delivered whatever crude the pipeline runs, from the storage tank, or whatever gravity?

A Yes.

Q And he pays the Imperial Oil for, he pays the Royalite Oil Company for the pipeline charge?

A Yes.

Q And he pays the Imperial Oil for the loading charge?

A The transfer charge.

Q I suppose essentially what he is doing is selling crude to the Royalite Oil Company and buying crude from the Imperial Company?

A Well, that is a matter of bookkeeping.

Q THE CHAIRMAN: Could you say without calculating

it, what that demurrage would amount to?

A That rate of drmurrage?

Q Yes, what would that amount to in money in your experience of the past year?

A That would......

Q I suppose you couldn't answer that offhand?

A I cannot, sir.

Q You see, one reads in the paper that the amount of crude oil allowed to be produced in Turner Valley is fixed at some ten thousand barrels per day, do you know if that is so?

A On certain wells, sir. That does not include two or three of the new wells that have come in.

Q Would it affect the through-put on your pipeline?

A It will reduce it.

Q To what extent?

A From around twelve thousand, approximately, including the Home well, about thirteen thousand barrels a day to approximately eleven thousand.

Q Eleven thousand?

A Yes.

THE CHAIRMAN: Any questions.

Q MR. FRAWLEY: That happens, Mr. Coultis, that is a seasonable situation, is it not?

A Yes, I believe so.

Q A year ago now that happened, didn't it?

A Yes, always at this time of the year, in the winter time there is not the demand and stocks begin to pile up.

Q So when we are speaking of the through-put last year of five and a half million, or of six million, which was

the total through-put, with an average of some 16 thousand barrels a day, that was made up by these dips and peaks in the yearly, in the monthly through-put?

A Yes, due largely to our peak demand and an extremely good harvest season which we had the past year.

Q MR. NOLAN: You said to the Chairman, Mr. Coultis, that the Home was in addition, does that mean that the Home well is not under conservation?

A No, I stated, in answering the last question, that that included the Home well in that statement of 13 thousand barrels per day.

Q Yes, but I read in the newspaper that the allowable for crude in the Turner Valley is, from the first of February, I think at eight o'clock in the morning, is 10 thousand barrels?

A Yes, that includes a temporary allowable at the present time for the Home.

Q In the 10 thousand?

A Yes.

Q Then why do you say that the through-put is 11 thousand?

A That includes absorption naphtha. I base my statement on the through-put of the line total.

Q I see. I do not think the Commission understood that, Mr. Coultis, there would only be 10 thousand barrels of crude transpprted?

A Oh, yes.

Q Because there can only be ten thousand barrels of crude produced?

A Yes.

Q The other thousand were other products?

A I took the operation as a total.

Q Yes, you took the operation as a total?

A Yes.

Q And you say that this is seasonable, by that you mean in this time of the year these requirements go down?

A Due to the market.

Q Yes, well, do you know what the market is going to be next month?

A No, sir.

Q Or the next month after that or the next month after that or any month this year?

A No, sir.

Q The fact remains that this Order is now in effect, how long is it operative?

A Until it is changed by the Conservation Board.

Q MR FRAWLEY: Well, now, there is a lot to be said, if we go into that, I do not know whether this is the right time to go into it, we can keep on endlessly, but I will do the best I can, my learned friend asked you if you knew what the market was going to be in another three or four or five months, you know, you have been in that business now for many years, when seed-time begins the pipeline through-put goes up, doesn't it?

A The market demand naturally increases.

Q Yes? And the, you know, as a matter of fact, I presume you know why this crude allowable has gone down to 10 thousand barrels?

A Due to the market, the demand at the present time.

Q Yes, you people did not have any more place to hold the oil in your storage tanks in East Calgary?

THE CHAIRMAN: Is that right?

A Beg pardon?

Q Is that so?

A The terminal takings were largely down and the market w's not demanding or taking the oil and it was piling up at both ends.

Q MR. FRAWLEY: This is the low; of course, the all-year low point, is it not?

MR. NOLAN: Is it?

MR. FRAWLEY: Well, Mr. Coultis should know.

MR. NOLAN: I wonder if he knows.

MR. FRAWLEY: He also knows better than anyone else. In the ordinary marketing operations of the year, when does it go down to the lowest and when does it go to the highest, you know that?

A At some point during the winter months, naturally there is a low point.

Q And here we are about the first of February?

A That is right.

Q Now, just give us the benefit of your views on the subject, do you expect, just going back over the past years' experiences, that this, about the first of February now, that for some weeks now will be the low point in the takings?

A I think it will be very near the bottom.

Q Yes, sure, and when seeding starts it will go back up again?

A Naturally.

THE CHAIRMAN: Well, you see, Mr. Frawley, that may be of some importance. The witnesses whom you have called have said that marketing conditions should give the pro ratio.

MR. FRAWLEY: I know.

THE CHAIRMAN: And this great, a great increase, to level up the year, might never take place. A too rapid withdrawal is not consistent with proper conservation.

MR. FRAWLEY: That is true.

THE CHAIRMAN: And it struck me that that should be cleared up, not that I should be the one to start anything new, but still it hits one right in the eye.

MR. FRAWLEY: If it is deemed to be material, and it is for your lordship to say, and it is relevant, we will have to go into that.

THE CHAIRMAN: Most of the opinions given have been predicated on a stated through-put which is supposed to continue.

MR. FRAWLEY: Yes.

THE CHAIRMAN: If it becomes a fact, and it is carried over every newspaper, that that through-put is very considerably reduced,......

MR. FRAWLEY: Yes.

THE CHAIRMAN: It seems to me that this Commission would like to hear something about it, if one can get to hear about it, we would like to hear something about it anyway and we hope to hear about it without spending another two weeks on it, or anything like that;

MR. FRAWLEY: I certainly, for one, do not propose to shut my eyes as to what might happen to this through-put in this line and in fairness to this company, this Commission must have in mind what may happen to this through-put, not only as to the Alberta market but as to other markets, that must be gone into, but I want to explain through Mr. Coultis what brought about this ten thousand gallon drop and Mr. Coultis says this is about the bottom of the market demand for the year.

THE CHAIRMAN: I just brought it to your attention.

C2
17

MR. FRAWLEY: Whether that is good conservation or not, that is something else.

THE CHAIRMAN: Your opinions are predicated on good conservation.

MR. FRAWLEY: Quite so.

THE CHAIRMAN: And I think Dr. Boatright, certainly some of the witnesses, said that marketing conditions should not be a guiding factor, either in good conservation,.....

MR. FRAWLEY: No, and does not that, with respect, sir, become more pertinent when we get to the other end of the picture, when it is a question of taking too much out to meet market demands?

THE CHAIRMAN: Yes, but if you get this low now, if you are going to have a levelling out over the year, you must have an increase to bring up the low.

MR. FRAWLEY: Quite so, which can be dealt with in many fashions, that is more storage, which one of the witnesses has mentkoned, permission to take more allowable as the months go by.

THE CHAIRMAN: It would seem sound in a conservation scheme that how much tankage a particular company has would govern the pro ratio. and the conservation.

MR. FRAWLEY: Yes, that is so.

THE CHAIRMAN: Perhaps, they should have more tankage.....

MR. FRAWLEY: Of course, they would have to, if they state to the Conservation Board "We would like to produce now more relatively over certain months," they would have to provide tankage to do that.

THE CHAIRMAN: Well, I just brought it to your notice, that if the opinion is to be predicated on

the through-put which varies so much over the year it should be shown that it largely will level up.

MR. FRAWLEY: Yes, and that is a larger matter which I am prepared to face and discuss with this Commission.

THE CHAIRMAN: Very well.

MR. FRAWLEY: I know Mr. Harvie has some questions to ask.

MAJOR LIPSETT: Is the present figure, did I get it right, that the present figure is 11 thousand barrels including the through-put in the line?

A The total through-put will be approximately 11 thousand, when this 10 thousand conservation is applied.

Q 10 thousand of crude and 1 thousand of naphtha?

A Yes, and there are several new wells which will creep into that picture, each will vary it, or very soon raise it, new wells coming in will rasie that 10 thousand.

Q A little bit?

A Yes, somewhat.

THE CHAIRMAN: All right, anything, Mr. Harvie?

Q MR. HARVIE: Mr. Coultis, I have a few questions I would like to ask but before doing so, Mr. Chairman, I think you have clarified in my mind......

THE CHAIRMAN: I didn't catch what you said.

MR. HARVIE: I say I have a question or two to ask Mr. Coultis, but before doing so I would like to state that you have clarified in my mind and in the mind of my client something which we have been in doubt about and which I propose to ask about, and that is whether we were to consider the future effect.

THE CHAIRMAN: A report or a recommendation with respect to the pipeline rate could not be one

that was made for an afternoon only. There must be some thought about an appreciable time. for it to cover.

MR. HARVIE: I certainly agree with that, but I got the other impression from Commission counsel.

THE CHAIRMAN: All I meant was that it was not just to be for a day.

MR. FRAWLEY: I am sorry, I should not have been engaged in something else at the moment, but I was and did not hear what you said.

MR. HARVIE: I was saying this, Mr. Frawley, that I have intimated to the Commission that we are quite interested as to the setting of the future rate, as to what happened in the past we have not been so interested, and I was much interested in the comments of the Chairman just now, when he intimated that he wished to look at the future through-put of the line and the possibility of the markets, in setting the rate, and I have intimated that I have discussed the matter with you on occasions and that I gathered from you that you did not intend to take that into consideration.

(Page 3477 follows.)

MR. FRAWLEY: Oh no. Well I am sorry my friend got such an impression as that. I realize the Commission has got to give some attention to what the rate will be for some appreciable time in the future.

MR. NOLAN: Based upon what, the present conditions or on the condition which may exist in the future?

MR. FRAWLEY: I just said I was prepared to face a diminution of the through put of the line which surely contains a lot of inferences to you.

MR. HARVIE: That is just exactly what I want, but it is entirely different to what I was informed previously. That being the case there is one point I did mention at the time the question of the adjournment came up.

THE CHAIRMAN: It is not to be held against Commission Counsel that he does not know everything that the Commission may have in mind. We have not confided to him all our thoughts.

MR. HARVIE: I have endeavoured to be of such assistance as we may to try and find out what the future kind of evidence would be. We have that clear now.

THE CHAIRMAN: At the moment it appears to us that we are interested in the through put of this line. Where we will stop and where we will begin on that is for us to think over. You can assume we are concerned with the future. How far into the future we must peer is something we will give thought to, and do our duty as we see it. The through put may

S. G.Coultis.

be of interest.

MR.HARVIE: Yes. I have now one or two more questions.

Q Referring to Exhibit "98", which is the suggested specifications in connection with the pipe line rate. Referring to Paragraph 11 dealing with free storage, under the practice to date the question of storage has never entered into any arrangement with the pipe line. There has been no storage charge or anything up to date?

A No.

Q This is something new, a new procedure, this suggestion of a storage charge?

A Yes.

Q Paragraph 11 suggests 7 days free storage and then a varying rate after the first 7 days. Are you familiar, or are you in a position to say that is what may be known as common pipe line practice. Or some other date?

A I think it would work out to be reasonably common.

Q Now do you know what the practice is, say in Montana?

A Not at the present time. Some time ago I believe they had a 30 day free storage period, and then one and one-half cents per barrel per day.

Q Per month?

A Per month, yes.

Q Yes, that is my understanding. Free storage period of 30 days and then a charge of 1½ cents per month?

A That is right.

THE CHAIRMAN: 1½ cents per month per barrel?

MR.HARVIE: Yes.

A I do not know whether that is in existence today or not.

Q MR.HARVIE: I imagine evidence can be brought on that?

A Yes.

Q At the moment that is my understanding of what the situation is?

A Yes.

Q You in reply to a question I think of Mr. Plotkins' suggested that on account of the type of crude that was being handled in your line as compared with the Montana Oils, yours being much lighter and subject to greater evaporation loss, these same figures would not be applicable?

A Yes. I do not believe I compared ours with Montana crude.

Q I think the inference was with some other crudes?

A Yes, some other crudes.

Q That being the case we will take the situation in Montana, that the pipe line furnishes storage to customers for 30 days free and then $1\frac{1}{2}$ cents a month per barrel thereafter?

A Yes.

Q I have been trying to translate this schedule as set out in Paragraph 11, the second part of Paragraph 11, into something which can be compared, and if you will assist me in that. I have had Mr. Cottle give the figures or prepare the figures just here?

A It would be approximately $150.00 at the end of 60

days, or the end of the 30 days' paid storage. Or at the end of 30 days in Montana would it now?

Q Yes. I had not figured it out on that basis. I will put it this way, on the basis I have figured it out, and I will read the figures which, as far as I know, are correct. It will save some time in computing them. You should have the right to check them. In Montana, or using the rate, call it the 30 day free storage, it would be nothing for the first 30 days and as compared to your schedule it would be 3.9 cents under this suggested tariff?

A Per barrel?

Q THE CHAIRMAN: Does anybody know about this Montana rate? I cannot have you giving evidence like Mr. Plotkins, Mr. Harvie.

MR. HARVIE: No, but I did have this schedule that was filed as an Exhibit.

MR. PLOTKINS: I have bills I am paying right along and I can produce them for your consideration.

THE CHAIRMAN: That will be a simple way.

MR. HARVIE: I was going to use this document that has already been filed, a schedule of the rates, but it was in the Reporter's hands and it was not available at the moment.

THE CHAIRMAN: Then at the end of the month it would be......

MR. HARVIE: At the end of the first month.

THE CHAIRMAN: That is really three weeks' pay?

A Yes.

Q There would be a difference of 3.9 cents a barrel?

MR.HARVIE: 3.9 cents per barrel.

At the end of the second month where there would be a charge of 1½ cents......

A It would be approximately $138.00 against Montana $150.00.

Q I do not figure it that way, Mr. Coultis.

A I am basing that on 1000 barrels of crude. Taking 1000 barrels as the basis.

Q But in Montana the second 30 days would be 1½ cents?

A Yes, that would be $150.00 for 1000 barrels of oil.

Q I prefer to take my own figures and you can transpose them to yours if you wish.

MR. PLOTKINS: $15.00 Mr. Coultis.

Q MR. HARVIE: 1½ cents per barrel for the second 30 days. Under your rate as I compute it, or have had it computed, it would be 9 cents. At the end of the 90 day period, or for the second 30 day period.......

THE CHAIRMAN: Just a minute, 1½ cents as against what?

MR. HARVIE: 9 cents.

THE CHAIRMAN: Yes?

Q MR.HARVIE: Which would give an accumulated figure for the first 60 days of 1½ cents on the Montana rate as against 9 cents which is the suggested tariff rate, and thereafter, a period of 90 days it would be 3 cents in Montana ss against 21.9 cents.

THE CHAIRMAN: 21 point?

MR. HARVIE: 21.9 cents. Now I quite agree with you, Mr. Coultis, that there possibly should be some allowance and some very fair and reasonable allowance for the difference in the gravity of the crude. But that figure, I presume, is supposed to pay you a return on your investment, as far as your tankage is concerned, and facilities and your operation expenses and also to look after the general losses you would suffer.over that allowed under the 1½% rate?

A Yes, and the additional cost of tankage in Canada or Alberta, compared to the cost in the United States.

Q Very true, they are not exactly comparable and there should be an adjustment. But we will say for the first 30 day period, which I think maybe is a fair one to take and one that might be a reasonable one to expect storage under such circumstances, would you say that the variation or the difference between 1½ cents and 9 cents would be more than ample to pick up the difference?

A Well it would take care of the difference.

Q Are you in a position to give us some figures on losses and so on that will throw some light on that?

A In the terminal tankage only?

Q Yes? I do not want you to answer it right offhand. It would be a difficult thing. But may I put my question this way.....

A It is rather hard to determine the loss on the terminal tanks alone, when they are working tanks. They are working practically all the time.

Q Yes, I think that is a factor to be considered.

A It is rather difficult to get an accurate figure that

you would like to use.

Q You have no further information you can throw on that offhand?

A No, I have not, offhand, sir.

Q I think that is all.

THE CHAIRMAN: Any other questions?

MR. PLOTKINS: I would like to ask a few more questions in view of what has taken place. The first question I would like to ask Mr. Coultis is if you are aware that the Cutbank crude is 40 gravity or better?

A I have never handled that crude, sir. I am not familiar with it.

Q If you will investigate, and I think it would be proper to investigate that fact and report to this Commission, because you are not aware that the two crudes are similar, within one to two points at the most.

A I have never had anything to do with the Cutbank crude.

Q And do you know whether the rates that have been enunciated by the British American solicitor apply to the Cutbank crude as well as to the Kevin-Sunburst crude?

A No, I do not.

Q May I suggest to you that it does. So that the question of gravity should be minimized in the light of this Inquiry. In other words, we are not dealing with naphtha. We are not dealing with casing head. We are dealing with crude, is not that a fact?

A In Alberta?

Q Right here with this pipe line, when we are talking tariff we are talking crude tariffs?

A Yes, with some very light products.

Q Beg pardon?

A With some very light crude in it.

Q That is only incidental to the Imperial Oil operation. It has nothing to do with the Pipe Line Division of the Royalite?

A Except it increases your evaporation the more light products you transport.

Q Yes, I suppose it does. There is no doubt about that. Now you are concerned with the evaporation loss in transporting this crude?

A Concerned with all the losses.

Q But we are now dealing with evaporation loss?

A Yes.

Q Why then - and this is not to be sarcastic or anything of the kind, it is a proper question - and it is to get information from you, why do you heat the crude?

A To keep the wax from congealing.

Q The wax from congealing?

A And to drop out all the moisture possible.

Q To what temperature is it customary at this time of the year to heat crude?

A At what point Sir?

Q In your storage tanks in the field, to start with?

A That is not any definite temperature. It is covered by the atmospheric temperature and conditions.

Q What is the maximum you would heat?

A Probably 50.

Q So that that would be below the initial boiling point of the crude?

A Pretty well, of the average crude. Not the light product.

Q I am only talking of crude. If we are talking of naphtha, that is a different matter. So that when you heat the crude you heat it only sufficiently to cause a settling of the impurities and the wax to become liquid?

A Right.

Q And would cause no loss or at least no measurable loss....

A Now that answer only applies to tankage, as you put it.

Q Yes, the tankage in the field.

A We heat much higher at the head of the pipe line.

Q I will go into that later. So that in the field there are no appreciable losses due to heating the oil, being that the heat is down below the initial boiling point of the oil itself?

A Not on the low gravity crudes , no sir.

Q Now you say when it comes to pushing it through the pipe line you heat it further? Now what temperature do you heat the crude to at that point?

A It is a variable temperature.

Q I am asking you the ranges.

A We heat as high as 70°. Not in the tank though.

Q No, that is as it goes through the pipe line?

A We heat it in the line, in closed heaters.

Q Am I to understand as you pump the oil out of the tanks and it goes into the pipe line you have the means - from the time it leaves the pump and begins to go into the pipe line you have the means of heating the oil at that point?

A Yes.

Q At what temperature, or I will put it another way, this question, when it reaches Calgary the oil has cooled

considerably?

A Yes.

Q So that when it reaches this end there are no vapours, that is there are no appreciable amount of vapours. What is the boiling point of Turner Valley crude pipe line run, the initial boiling point?

A I do not know.

Q You know the temperatures you heat the oil to which are below the initial boiling point?

A The heavy crudes, yes.

Q Yes, the heavy crudes. So that all the operations you take and properly take in the pipe line division are calculated to minimize the losses?

A Absolutely.

Q So that when we reach the terminal tanks in Calgary the oil in the tanks is still at the ~~ep~~expense and risk of the Pipe Line Division, is that a fact? When it reaches the terminal storage tanks?

A We consider from the time we take delivery of the oil until it is delivered out of our property....

Q Out of your tanks?

A Yes.

Q So that you are still faced with the responsibility of any loss that may be incurred in storage in Calgary. And now at that point.....

THE CHAIRMAN: You agree to that do you?

A That we are responsible for the loss, yes sir.

Q That might take place in your storage tanks in Calgary?

A Yes.

THE CHAIRMAN: The witness had not answered one way or the other. You said so but you did not wait

for an answer.

MR. PLOTKINS: I deducted from his previous answer that was the position.

Q Now does your Pipe Line Division provide the men and the facilities, or pay for them, to take care of your property at the terminal end?

A That take care of our property?

Q Yes, that look after the storage tanks and see they do not leak or that the oil is properly delivered and see there is no evaporation and so on. In other words, the ordinary functions of your men at this end?

A We check the gauges of these tanks.

Q Who does, the Pipe Line Division?

A Yes.

Q Your men? You have how many men at this end?

A We have one checker only at this end.

Q One checker only?

A Yes.

Q Any other men?

A No.

Q And his job is.....

A All repairs and maintenance is carried on by the repair crews of the refinery.

Q Everything, you mean that all the other incidentals...

A Maintenance. The refinery supplies the steam and fire fighting equipment and water, if necessary, and any other utilities, and light.

Q Does this man of yours regulate or give the orders and supervise the heating of your oil.

A He checks it.

Q Under whose instructions does he act. Do you give

the orders?

A He checks it.....

Q On heating the oil at a certain temperature?

A He acts under the orders of my Field Superintendent.

Q You are prepared to say that the same principle applies that the heating is done under regulated conditions that will cause a minimum amount of vapour loss?

A We endeavour to do that, sir, yes.

Q In other words, vapour losses are under your control?

A Yes sir.

Q And there exists in the industry proper appliances for controlling that still further?

A In what way?

Q In other words your tanks, we will take the terminal storage, which provide that pressure vapour appliances and vacuum appliances so that you can regulate the gases that are generated, at least regulate the amount of gases that are lost to the atmosphere?

A Within certain limits.

Q Within certain limits, yes. And being you take take care not to heat the oil above the initial boiling point, the only vapours that would rise would be the surface tension vapour. In other words the air blowing on the surface and picking up some of the light ends?

A Possibly.

Q And that is the ordinary evaporation losses?

A Yes.

Q They are controlled by these appliances on these tanks?

A Yes.

Q So that for all practical purposes the question of evaporation is under reasonable control?

A To the best possible condition that we could apply.

Q With the tools you have to work with and the knowledge you have of the conditions:

A Yes.

Q And that you are trying to regulate?

A Yes.

Q In answering Mr.Frawley a few moments ago you suggested that the refinery should cater to the requirements of the small refinery. Is it not the proper function of a pipe line to not only transport but to deliver oil?

A I do not know whether it is, sir, in tank trucks or small packages?

Q What is the difference between a tank truck and a tank car?

A Well it is a question of who is going to pay the operation.

Q Am I to take it from your answer you consider it costs more to deliver to a tank truck than it does to load a tank car?

A Yes sir. I consider the losses are a great deal more. There is a considerable more fire hazard too.

Q Is not that a question of proper engineering and location, Mr. Coultis?

A Yes. But there is a great many more tank trucks burned up in this country than there are tank cars.

Q Well it is measurable, those risks?

A Yes, it is measurable.

Q And not only that, but it is insurable.

A Oh yes.

Q So there are no insurmountable difficulties in respect

of the rate that the pipe line will deliver into tank trucks as well as into tank cars?

A No, it is not insurmountable.

Q Are you aware in the last few years that the pipe line divisions of a good many companies in the United States have had to face that particular situation, and have made arrangements to deliver it to tank trucks?

A No sir, I did not.

Q You are not aware of that? Now you suggested that the Lion Oils and the British American do that, or the Imperial. Now are you aware that the Imperial has always objected strenuously, by every means possible, to any small companies such as the Lion Oils, jobbing oil, in other words supplying some other refinery. Are you aware of that?

A No sir. That is Mr. Moore's trouble.

Q In other words, as Mr. Frawley has properly stated, or do you agree with him - I would rather put it that way - because I think Mr. Frawley just found the main reason why these things happen, would you agree with him that the oil is actually, under the system that you are now handling it, that the Royalite is now handling the crude, that what actually takes place is that the Royalite just buys the crude from even the independent producer and then sells it to the Imperial and then the Imperial is in a position to set its own conditions of delivery and sale. Is not that the effect of the arrangement?

A I believe the Lion Oil Company and the British American Oil Company have the same rights.

Q The same what?

[illegible]

[illegible]

[illegible]

[illegible]

A The same rights to dispose of the oil in any way they see fit.

Q They do not receive the oil under the same conditions, and the conditions, as has been brought out in evidence, are imposed, not by the Royalite,- although I would dispute that contention - but by the Imperial - in other words, you see what I am going to ask you to tell me is whether I am right or not, that when the oil reaches Calgary, its terminal storage, you are through, and it then becomes a matter for the Imperial Oil to decide what is going to happen to it, and how they are going to deliver it. Is that a fact?

A They have a distribution system at the present time beyond the terminal tankage. I have nothing to do with anything beyond the terminal tankage.

Q And is not the effect of that simply to put in their power or under their control, the disposition, the methods, the means, the price at which they will deliver that oil to Lion Oils or any other company, except the British American which happens to be faced with a different situation?

A They have control over their own equipment.

Q Why doesn't the Royalite Company provide equipment so that the Imperial, who is a competitor of these other companies, will not be in a position to control these conditions?

A Why do we not?

Q Yes? Don't you think it is a proper function of a pipe line company - coming back to this same question - to provide delivery facilities, whether it be in tank trucks or tank cars or to any refinery?

A It will, no doubt, be taken care of, as the industry grows, and it is justified, the expenditure.

Q What do you mean by the industry grows? We are supplying all the demand now. It happens it is in the hands of three companies now, but in a month or say a year or two years or three years it may be in the hands of 20 companies?

A Yes.

Q It won't grow any more except as the demand increases. So we must provide for what exists today and to take care of the future. In your opinion is it not a proper function, would it not give the Royalite Oil Company better control over its business if it was in a position to make arrangements for delivery of crude instead of handing that privilege to the Imperial Oil? Another thing......

THE CHAIRMAN: Let him answer that. before you go on.

A Would you state that all over again?

Q MR. PLOTKINS: I say would it not be bettor and increase the revenue and facilitate or at least prevent the growth of competition, pipe line competition from other fields, if the Royalite, as a pipe line division, or as a separate entity, were in a position to state the conditions under which it would not only transport but deliver at the other end?

A I think we are in a position to make that delivery if we have a just and bona fide application that will justify the expenditure.

Q Is that your answer?

A That is the best answer I can make to that.

Q Now, Mr. Coultis, when this pipe line started in business, there was not sufficient oil to justify the big investment of a pipe line at that time, but you saw fit as a good business organization to take the risk, knowing that you had to build it and provide facilities in order for the business to develop. Would not that apply to loading facilities?

A Well there are loading facilities at the present time, in the East Calgary yards owned by the Imperial. It was just a question whether it was advisable at the present time to duplicate all that system.

Q Why did the Imperial instal that delivery equipment when it was the proper function under the normal course of events for the Royalite to do so?

A That, I believe, was installed along with the construction of their refinery.

Q For deliverying crude oil to trucks?

A Shipping in and out of the refinery. Their loading racks and spur tracks are used for loading and unloading.

(At this stage the Hearing was adjourned until 2 P.M.)

....

MR. FRAWLEY: I think Mr. Chairman, it will not be out of place if I interject now to file some telegraphic communications which have passed between Mr. Harvie and his clients in Toronto, which relates to the Toronto pipeline. I think if you will remember as far back as Mr. Hill's evidence some question arose as to it and Mr. Harvie was good enough to wire and get some information and I will read these telegrams, which states the position of these pipeline communications.

"Toronto, Ontario, E. L. Harvie, Barrister, Canada Life Building, Calgary. Your telegram 20th Stop Information just received re Toronto pipe line Montana approximately 21 miles gathering lines Stop 27 miles trunk lines Stop Total throughput 1936 gathered 934,000 barrels delivered 971,000 Stop 1937 gathered 841,000 barrels delivered 740,000 Stop Rate 15 cents deductions 2 percent Stop Transport for Parent Company only Stop Constructed 1934 still operating. 'Gaby'".

And Mr. Harvie wired back asking for some information, on the 25th of January, to Mr. Gaby.

"Your telegram 25th Toronto pipeline please explain why deliveries greatly exceed gatherings for 1936 and reverse situation for 1937 also approximate present throughput and estimate of possibilities in immediate future. 'Eric L. Harvie'".

And Mr. Gaby replied on the 26th by wire.

"E. L. Harvie, Barrister, Canada Life Building, Calgary, Alberta. Your telegram yesterday Stop Deliveries vary account of taking from storage or adding thereto Stop No throughput trunk lines to Coutts Stop No estimate for future. 'Gaby'".

I would ask perhaps that the three telegrams be filed as one exhibit.

THE CHAIRMAN: They are attached together.

MR. FRAWLEY: They are attached together.

(THREE TELEGRAMS READ HERE MARKED AS EXHIBIT "131").

MR. NOLAN: It is not very clear, Mr. Chairman, what the 2% deduction means in the Exhibit which has just been read, Exhibit "131", the words used are "deductions 2%", I think I know what it means.

MR. FRAWLEY: Well Mr. Harvie perhaps had better ask Mr. Gaby to elaborate on that expression and I might say the same kind of information with respect to the International Pipeline is being obtained from the Texas Company but there is some delay.

THE CHAIRMAN: Now you told us before, but it should appear right here on the record who Mr. Gaby is.

MR. FRAWLEY: Yes, Mr. F. A. Gaby is the Vice-President in charge of operations for the British American Oil Company, and Mr. Harvie also offers to be filed, as he was asked to do, copies, specimen copies of the British American producing contracts used in Turner Valley.

THE CHAIRMAN: You said copies, is there just one or more?

MR. FRAWLEY: Just the one.

MR. HARVIE: If I might be allowed, Mr. Chairman, to make a comment in connection with the copy being filed. We have not really developed any uniform contract . As conditions change the contract is changed and this is the last contract which we have entered into, a copy of the last contract,

and in it there are references made in paragraph 1, to 2% deduction representing the pipeline loss, this was entered into before the change came in to 1% from 2%, so now I have in pencil just made a note that now it is 1% and under all old contracts they are now getting 1% irrespective of what the contract says.

THE CHAIRMAN: What I want to get at, you have two documents in your hand, is one a copy of the other?

MR. FRAWLEY: Yes, it is.

THE CHAIRMAN: So it is just one exhibit?

MR. FRAWLEY: Yes.

(COPY CONTRACT FOR PRODUCTION ISSUED BY THE BRITISH AMERICAN OIL COMPANY HERE MARKED AS EXHIBIT "132").

THE CHAIRMAN: With which is associated Mr. Harvie's observations as to the deductions of course?

MR. FRAWLEY: Yes.

THE CHAIRMAN: Well I suppose in the light of what Mr. Harvie says, representing the British American, there is really little need to wire Mr. Gaby now as to what is meant by the 2% deductions?

MR. FRAWLEY: If Mr. Nolan is satisfied.

MR. HARVIE: The 2% deduction is in this contract but I think what Mr. Nolan was referring to is under Mr. Gaby's wire, referring to the Toronto Pipeline deduction in Montana, and I think the same remark is applicable to that, that that does cover the 2% pipeline deductions.

THE CHAIRMAN: I assumed that Mr. Gaby must mean that in the light of what you say.

MR. HARVIE: They are entirely separate and distinct.

MR. NOLAN: Mr. Harvie can give us the information.

THE CHAIRMAN: If there is any doubt about it, he should find out.

MR. HARVIE: I do not think there is any doubt but that that is the 2% referred to in Mr. Gaby's wire, that is the 2% which is allowed for pipeline loss under the Toronto pipeline regulations.

THE CHAIRMAN: However, if there is any question about it you had better wire Mr. Gaby if you will.

MR. HARVIE: Yes.

THE CHAIRMAN: All right, Mr. Plotkins, you were going to finish with Mr. Coultis.

SAMUEL COULTIS, having been recalled, examined by Mr. Plotkins said:

Q Continuing where we left off, why should not the Royalite Pipeline Division rent the loading facilities at the Imperial Oil, the same as they rent the storage, in order to give proper service to all their customers or probable customers?

A I do not think that it has been necessary to rent all of that equipment in order to give service. I believe the customers have been given good service from the other company.

Q In the past?

A Yes.

Q But in the future with the pipeline a common carrier offering its services to everyone, and in the light of what we assume is the proper function for the pipeline, namely not only to transport but to deliver at the percentages, would it not be reasonable to expect the pipeline to have its own facilities to deliver?

A If there were not loading facilities available it would, and no doubt in the future if it is found necessary that will be supplied.

Q Assuming if the Royalite pipeline was a separate company and had no connection whatever with the Imperial, would it not be of necessity required to provide those facilities?

A Unless they could rent.

Q Or rent?

A Some other loading racks.

Q Yes, but if they rent these facilities they would not allow those facilities to be under somebody elses control?

A Not in the case of renting.

Q Not only from the standpoint of renting but from the standpoint of the pipeline as a whole, would it be considered good business by you as the manager to allow the terminus to be in some competitive company's hands?

A In their hands?

Q Yes.

A Or---

Q Under their management?

A It would depend on how much confidence I had in that company.

Q Quite, would you think the customers you cater to would feel the same confidence or would you not take any chance of not creating any friction and have your own facilities so as not to create trouble?

A Providing I did not have any trouble and all my customers were satisfied I think I should be satisfied also.

Q That is the way you feel about it?

A Yes.

Q Now we will come back to this question of line breakage and

spillage and evaluate the losses or risks rather; up until now you realise that we have only just casually referred to it, we have not attempted to evaluate that risk. Now what is the actual risk or in other words what causes, what possible causes could develop that would cause the line to break, will you be good enough to relate it in the light of your experiences so that we can evaluate it?

A It covers a lot of ground, sir.

Q Yes, but name the principle ones.

A We have to have, we happen to have the main lines grabbed up by road crews who deviated from the proper right-of-way in order to divert a road around a hill.

Q You what?

A We had a road crew plow the line up.

Q What kind of road crew?

A A construction crew.

Q Plow the line up?

A Yes.

Q I do not understand that?

A They hooked on with a 60 ton Caterpillar and broke it in two.

Q They deliberately hooked on to your line?

A No, they didn't know it was there.

Q They did not know it was there?

A No, not the road crew, between here and Turner Valley.

Q You mean the Government road crew?

A Yes, the Municipality.

Q The Municipality road crew?

A Yes.

Q How deeply buried is the main line?

A 30 inches in the main instances.

Q So that is one--
A That is one.
Q And that is not under your control?
A No.
Q Is there any way of insuring that?
A No.
Q You cannot obtain insurance to cover such a risk?
A Not that I am aware of.
Q Let me think a minute and see what that means, what risk actually there is to that, have you any recording device, pressure recording device at your terminus or at your pumping stations which would indicate to you within a reasonable time when a line break occurs?
A Depending on where the line broke, if it broke over the range of hills on this side it might not record at that end.
Q Would it record at the other end?
A It would record, yes, at that end, the flow would stop.
Q So that in a case of that kind you are able to minimize the loss, in other words you are able to find out within a few minutes when the pressure goes down suddenly in your line, I mean in the case of a line break or something?
A Yes.
Q You immediately have it recorded on your pressure gauge?
A In some instances, not all.
Q I mean if it is a serious break.
A The most serious break we had did not record it at all.
Q Didn't record at all?
A No.
Q How do you attribute that fact?
A Because the line split and opened up and took the volume of

the pump through the break and maintained 1000 pounds pressure on the recording gauges without a movement.

Q You mean the break did not quite get to the surface?

A Oh, it got to the surface, it blew a large hole in the ground and spread out over several acres of land.

Q But there was sufficient back pressure?

A Yes.

Q Caused by the earth?

A Sufficient back pressure somewhere along the line.

Q That it did not reflect on the gauge?

A It did not reflect the pressure at the Turner Valley end.

Q What was the loss then?

A Over 2000 barrels, in the neighbourhood of 2200 barrels.

Q 2000 barrels, how long did it take you to find, that is what time elapsed from the time you estimate the break occurred and the time you actually were aware of it?

A We were not aware of it for some time.

Q How long?

A Due to the fact that there was no drop in pressure.

Q Well would you estimate the time?

A I would imagine two hours.

Q What was the rate of flow, what was the rate of flow at that time through your line per hour?

A Probably at the rate of 6000 barrels per day.

Q 6000 barrels per day?

A Yes.

Q That would be what per hour, roughly speaking 250 barrels an hour and in two hours there were 2000 barrels of oil lost?

A No, no, I didn't say that.

Q Well what was the situation?

THE CHAIRMAN: They discovered the break in two hours.

A We discovered the break and the break was located in the lowest point in the Sarcee Reserve with a great dip in altitude dropping from around 4300 feet to in the neighborhood of 4000 feet and that line was, this occurred in the night.

Q In the night?

A Yes.

Q So that from the time the break occurred until you were able to repair it you lost 2000 barrels?

A Yes.

Q Have you any suggestion as an eingneer, any steps that the company might take in the line of recording instruments for safe-guarding, that would prevent such a big loss in a similar situation?

A No, I do not know, in a similar situation, what would prevent that loss.

Q You do not know?

A No, we have had other serious losses.

Q Is the only means of detecting a leak, a serious leak or a serious break in the pipeline, the pressure record, the pressure drop record?

A Oh no.

Q What others?

A We report hourly, our men report hourly.

Q You have men at both ends that communicate with one another?

A Yes.

Q And report hourly on the throughput?

A Yes.

Q In that case, that particular night that was occurring?

A Yes.

Q Did the men not get alarmed at the receiving end?

A I do not think they became sufficiently alarmed, there is always that human element to contend with and you know that element as well as I do, once in a while we get a man that probably is not as alive as he should be at 4 o'clock in the morning.

Q So the receiving end was not, or did not reflect the break in the line?

A Somebody did not.

Q Well now normally would you not expect that to occur, I mean normally in the operation, reporting every hour as you do, that if there was a loss of oil from the starting point to the terminus, that it would be reflected and something would be done about it?

A Oh yes, yes, very much, sir, that is the first instance I have had of that particular type in 10 years and I think it is a good record for the boys.

Q Somebody was not on the job?

A He was on the job probably.

Q Well at least he did not carry out his duties?

A Probably his brain was not functioning so well as it should have been.

Q So there is the question of the human element?

A Yes.

Q Well now it is possible then, to obviate that, that is a problem to be able to record the amount of oil which is received at the end of the line without depending on the man at the other end and you know, at least I am asking you this

question, there is on the market an instrument that will do that?

A Not altogether, no.

Q That will not measure the oil which goes in from the receiving tank and record it?

A Yes, providing it works under all conditions.

Q Well is it not your experience that instruments today, using cracking plants and the conditions of high pressure and considerable temperature, do work and work almost invariably?

A Yes, Mr. Plotkins, there are instruments for a great many things and they are very efficient instruments but I have not found any instrument which will record the volume of oil and tell just what it is.

Q I do not just get that.

A I have no record of an instrument that is satisfactory for the conditions which you are inquiring about, and I still have faith in men and I still like to employ them and would depend a great deal more on men than instruments where there is a question of the instrument failing.

Q Would it not be the fact there that the instrument would only supplement the men?

A Well, just what instrument do you refer to?

Q A flow recorder?

A That would record 42 miles away?

Q No, not 42 miles away, that would register at the end and report, so that your man would not have to use his brain but just read the record and transmit it, now is it not a fact that when a condition like that occurs that somebody has not recorded or transmitted the information, that he actually does not take measurements, in other words he has skipped his duty and does not take the measurement.

A Possibly.

Q I mean that is your experience, with men, it happens?

A May I ask you a question---

MR. NOLAN: No, just make the answer.

A All right.

Q MR. PLOTKINS: Now have you any reason to say that a flow recorder, which is a common instrument in the industry, would not record properly the flow at the receiving end?

A It may be very misleading because a man might become accustomed to depending on the flow recorder doing his work and in case that was frozen up with a small amount of water it would be recording a fictitious level.

Q Would not common sense and experience under those conditions cause you, as manager of the line, to see that the men check the instruments, in other words have a double check, where your serious loss could be averted?

A I would still be back to the men checking the instruments.

Q Yes, so that you say that you must leave the hazard, that is the chance, this matter of line breaking?

A There is always, yes.

(Go to No. 3506)

[illegible] recorder, [illegible] instruments in the [illegible] record properly [illegible] at the receiv[illegible]

It may [illegible] because [illegible] to depending on the film recorder doing his work and in case [illegible] was frozen up [illegible] small amount of water [illegible]

[illegible] be back to the men [illegible] instruments.

[illegible] you say that you must leave the hazard, [illegible] of line [illegible]

Q What other type of line breakage could occur. That is, what could cause any other line breakage?

A Heaving of the ground, settling of the ground.

Q That would cause a line break?

A Contraction and expansion, change of temperature.

Q That would have the same effect as the case we previously discussed, it would allow oil to escape and if there was some means of ascertaining the fact almost immediately it would minimize the loss?

A To some extent.

Q Is there any other reason why the line would break?

A The line might be tapped by thieves attempting to steal oil.

Q Is there any other reason. You mentioned this morning about oil congealing, would not that cause the line to plug, and if the pressure continued cause the line to break?

A It might not.

Q Has it ever been your experience that that happened?

A No, I have not had any wax plug sufficient yet to break the line.

Q Would you not say that was under your control?

A Yes, sir.

Q You will agree with me if I say that the same thing happens there, you could have recorders, temperature recorders, spotted at various sections along the line, recording at either end, so that you know the temperature?

A Yes.

Q In that line, and that will prevent the congealing below a certain point that you have pre-determined?

A Yes.

Q So that we can eliminate that risk, to some extent?

A Yes, providing the line is in operation.

Q Providing the line is in operation, what do you mean by that?

A If the line were shut down your temperature would naturally fall.

Q That is true. What would you do then to eliminate any risk of breakage when you first started up again?

A There is very little you can do. Put your pressure up to operating pressure.

Q You would not heat your oil a little more in order to cause a temperature rise?

A That would not move the plug in the line, sir. That might be ten miles up.

Q You are not in a position to blow the line or to transport lighter oil so as to minimize that risk, through the line?

A No, sir, not in all lines.

Q In your main line, I am talking about?

A No. You would not have warning, possibly, in many instances, that you were going to shut down.

Q Under present conditions where you are bringing a minimum of eight thousand or ten thousand barrels a day through, is it likely your line will be shut down?

A It is possible, yes.

Q Under what conditions?

A If the line breaks. In case of a line break you would naturally shut down. In the case of trouble at your terminal tankage, or fire, you would shut down.

Q What experience have you had in the past in that regard?

A I have had many shut-downs.

Q Has it caused you any real, or at least appreciable loss?

A No.

Q So that by your experience you are able to overcome the operating troubles. The technique has been developed to

minimize those different troubles?

A Our operations have been largely with lighter products than we are now handling, sir. We have had no shut-downs during this Winter on lines that were necessary, still in operation, except the one carrying white products. There is no danger from that of plugging.

Q So that the major losses will occur as a result of a break in the line?

A Yes.

Q That is not detected for some considerable time, several hours?

A It may not be.

Q And that can be minimized by, if necessary, doubling the crew at both ends. In other words, it is a question of evaluating that line and seeing if it is cheaper to have two extra men for that time or whether it is cheaper to take a chance?

A Yes, it is a question of one or the other.

Q It is a question of evaluating the risk and that can properly be done by a Commission such as this in endeavouring to determine that risk. In other words, it is not something you can leave to chance and just say "We will provide $50,000.00 or $100,000.00 for that"?

A Oh, no. You have to use reason in all these things.

Q You can evaluate that all right. Is there any other means you can lose any appreciable amount of crude through your gathering system or through your trunk lines?

A Through our gathering system?

Q Yes?

A And trunk farm?

Q Yes?

A You could have wash-outs.

Q What means have you of detecting the loss between a producer's tank and your first receiving station?

A Both points are checked.

Q So that the same procedure occurs as is maintained on the trunk pipeline?

A Yes.

Q So that the same means of preventing loss exists?

A Yes.

Q The same thing occurs between your field storage and the head of the trunk line?

A Not exactly, no, sir.

Q Well, have you a complete check there?

A Not as accurate as on the mainline.

Q What are the reasons?

A Because our gaugers travel all over the field, gauge a tank of oil in one section and move on and gauge another. The trunk main line men are notified - the gauger at the main tank farm is notified he is gauging approximately so many barrels of oil. And the gathering system is working 24 hours a day. So it is impossible to keep an accurate check on it. We can make a daily check but an hourly check, it would be impossible.

Q That means in the central gathering system, that is the part that is at the head of the trunk line?

A Yes.

Q You also gather in that section?

A Not very much.

Q Not very much. Is it because you do gather and take the run in gauges in the gathering of this line as between the producer tanks and your main receiving tanks that you are not in a position to gauge hourly?

A We are taking guages in the field across the board.

Q I am dealing with the central section. I understood there were various gathering lines coming in?

A Yes.

Q And two or three tank farms?

A Yes.

Q And there was a central tank farm?

A Yes.

Q I am talking now about the central tank farm?

A Yes.

Q We have gone over all the others, and we have found that the risk is known and can be accurately gauged and provided for. We are trying to see if the situation in the central tank farm in Turner Valley is the same?

A It is gauged.

Q It is gauged, but you haven't the same control over that section of your system as you have in the other sections?

A Not on an hourly basis.

Q That is what I mean. You haven't the same degree of control?

A No, sir.

Q Now, how much territory does that particular part of your system cover?

A The gathering system?

Q That central tank farm, what radius does it serve?

A About a quarter section of land.

Q And it just gathers from the wells that are situated within that same radius of a quarter section?

A No, sir, it gathers from all over Turner Valley.

Q From other tank farms?

A Over an area of twenty miles long.

Q This central part does not gather from individual producers?

A Yes, it does.

Q In the whole area?

A In the whole area.

Q Well, is not the system that the individual producer in the South end pumps his oil to the South tank farm and this South tank farm pumps it to the main tank farm?

A Not heavy loads.

Q Or is it the individual producer in the South end pumps direct to the main tank farm?

A Providing there is a pump of sufficient power to give the pressure to push it to the main tank farm.

Q You mean wherever possible the producer's crude goes to the main tank farm?

A In many instances it does, except in the extreme end......

Q Where the pressure is too great?

A Too great.

Q What is the reason for this procedure?

A It is a logical procedure and economical.

Q I am asking you what the reason is for the benefit of the Commission?

A State that over again.

Q The reason for the necessity of going - in the South end you have a producer who has a tank of oil?

A Yes, sir.

Q And normally your men would take that oil and pump it to the South tank, the South gathering tanks?

A Yes.

Q But you say in some instances it is pumped direct to the main tank farm?

A Yes.

Q What is the reason for going direct and others not?

A Can you pick out any specific well that would help you?

Q Any well. What is the reason for doing that?

A It depends, if these wells are adjacent to a trunk line or a main trunk line, coming in from the South end and that we have a pump that is capable of exerting sufficient pressure to push the oil through that high-pressure line into the central tank farm.

Q It means then, in plain language, that where one of these producer's tanks is situated close to a trunk gathering line - not a main trunk line - but a trunk gathering line?

A Yes.

Q Instead of by-passing the gathering line and going into the tank farm you push the oil through with the rest of the oil, from that South end tank farm?

A Yes.

Q That saves one handling?

A It saves one handling but it costs an expenditure of an amount of money sufficient to purchase a high-pressure pump, which means a lot of money.

Q You say that in order to be able to push the oil into this gathering trunk line, which is under sufficient pressure to be able to push the oil into the South gathering tank, that you must provide a pump and power sufficient to meet that pressure?

A Yes.

Q That is what you say?

A Yes.

Q Now, why is it more economical to do this than to put it into the South tank?

A It may not be more economical.

Q Well, then, what is your reason for doing it?

A Because the pipeline probably leading to that particular

tank farm is loaded with oil from a number of wells or a large well and it is a matter of operating the gathering systems in the most economical way of getting the oil.

Q The gathering system as a whole?

A As a whole.

Q Then we come to the problem that you stated a little while ago. I want to know if I am right. You say that in the central farm you not only gather oil from this quarter section - from the wells that are situated in this quarter section......

A Oh, no, I did not.

Q Not only from those wells but also from wells scattered all over the field, that is, that part of the field that may be situated along its main gathering trunk line, and it is in those wells you have no control, hour by hour, no control insofar as the amount flowing into the line?

A Yes.

Q That is the wells you referred to a little while ago?

A Yes.

Q That is the problem you have in connection with minimizing the loss, the risk, at least one of the risks, remaining risks, in the gathering system, is that a fact?

A You have that risk.

Q You have that risk?

A Continually, yes.

Q I am trying to find out what it is evaluated at?

A Yes.

Q How often do you check under these particular conditions?

A Probably once in four to six hours.

Q So that even there you are able to minimize to some extent...

A Pretty well.

Q Any loss?

A Pretty well, yes.

Q What about your men. How often do you walk your lines?

A We walk the field lines daily.

Q That would mean each particular section of the line, how often would it be visited in a 24-hour period?

A Not more than once, in general.

Q The trunk line, would it be walked more often than the oil gathering lines?

A No, sir.

Q The risk there is greater though?

A I do not think so.

Q So that you now say the risk in this trunk line is no greater than in the other small lines?

A I do not think so.

Q So that, as a whole, the whole gathering system and the whole trunk line system, the losses from breakage can be controlled, and for purposes of determining the risk can be evaluated?

A The risk, Mr. Plotkins, on the main line, the risk of break is not any greater than the gathering system, but the risk of tremendous or serious loss on the trunk line system is very much greater.

Q Yes?

A Owing to the larger capacity of the line.

Q And the larger amount of oil going through the line?

A Yes.

Q But the means of control are much better under control than they would be if scattered over a lot of territory?

A Yes.

Q Now, the question of fire arose. That was one of the reasons that was mentioned. Is it not the practice that

the Royalite insure against that risk?

A Yes.

Q So that the risk is covered by insurance and will be properly chargeable to operating costs?

A On certain parts of the equipment. Practically all of the equipment.

Q What about crude oil?

A I do not believe it is insured at all.

Q You do not believe it is insured at all?

A No, sir.

Q But it is insurable?

A I believe you could obtain a policy at a very high rate. That rate, I do not know what it amounts to.

Q A high rate to cover the risk of fire at the terminals?

A And the contents of tanks.

Q And the contents of the tanks?

A Yes.

Q Do you know what the rate is?

A No, I do not.

Q If I suggested to you that in our case where we have no fire fighting equipment and we are certainly not as well organized as the Imperial refinery, our rate is under 1% for crude oil and manufactured products. Would you then think under those conditions it would not be preferable to take that risk and transfer it to the insurance companies, if the rate was that low?

A Our oil in storage is a floating volume and it would be very hard to place a rate on any given amount of oil.

Q I suggest to you that is exactly the same problem as what we face in our refinery and we have a blanket coverage that insures us for the daily balances at that rate. So that part of the risk could be taken care of.

MR. COMMISSIONER LIPSETT: Mr. Plotkins, if it costs you 1% to insure against fire alone, and Mr. Coultis or his company is giving you insurance against all risks for 1% at the present time, are you not getting a much more favourable chance from the Royalite company than......

MR. PLOTKINS: 1%?

MR. COMMISSIONER LIPSETT: 1% of the oil is all they are deducting for every risk.

MR. PLOTKINS: Am I to understand from your remarks it is 1% that covers all the risk? In other words, it will cover the risk of breakage and cover the risk of fire?

MR. COMMISSIONER LIPSETT: All the risks of the pipeline.

MR. PLOTKINS: So there will be no provisions in the estimate for amortization and cost of operating that will provide for these risks. Is that the inference that I should take?

MR. COMMISSIONER LIPSETT: You are putting it to the witness it is in the rate as distinct from this 1% loss. That in the rate there is further provision against loss, is that what you are putting?

MR. PLOTKINS: That is what I understood from the deliberations of the witnesses that gave evidence before, that is for the Royalite Oil Company, that they wanted in the rate not only 1% to cover losses but they wanted in the rate sufficient to allow for breakages, that is line breakage and losses through fire and so forth. This 1% loss was only to cover evaporation. I may be wrong, but that was the inference I have.

MR. COMMISSIONER LIPSETT: If you feel that way about it just continue. I do not want to interrupt you.

Q MR. PLOTKINS: Do you have a vapor recovery

system in any of the tank farms in Turner Valley?

A No, sir.

Q Not even at the absorption plant tank farm?

A The absorption plant is a separate unit. It handles its own tanks.

Q You do not attempt to recover the vapors from the crude storage?

A From the pipeline storage tanks, no, sir.

Q Is it because you feel that there is not sufficient evaporation that would justify the expense of installing the equipment?

A Partly, Mr. Plotkins, because the products that would be recovered in a vapor recovery system would be so high in sulphides that they would hardly be worth recovering. That has been my experience in attempting recovery from tank tops.

Q So that, as a result of your survey, you have come to the conclusion that the vapor losses are not worth recovering, whatever they are?

A I would put that another way. That the losses that are..... the vapors that are capable of being recovered, which would only be possibly a reasonably small fraction of the loss, would not pay for a recovery system extending over the entire main tank farm and particularly at the outlying tanks throughout the field.

Q So that for the purposes of the Commission they can disregard to a great extent the factor of vapor losses in storage and as occurs during the period of transportation. That is, from the time it leaves the producers' tanks until it reaches Calgary, on an average?

A No, I do not think so.

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

Q You do not think so?

A I do not think they should disregard it.

Q Until you came to Calgary, Mr. Coultis, you were in complete charge of operations?

A Yes.

Q In Turner Valley for Royalite Oil?

A Yes, sir.

Q And you will recall that in years past there was a period when naphtha was quite a commodity. That is, there was a large demand for raw naphtha, from farmers and dealers?

A Yes, sir.

Q And your company installed the facilities in Turner Valley at various points for making those deliveries?

A Yes, sir.

Q Was that a part of the Imperial Oil facilities, selling facilities, or was that conducted by the Royalite Oil Company?

A When it was installed and started it was Royalite.

Q It was Royalite?

A During the years I think you refer to it was Royalite.

Q So that Royalite undertook to sell......

A Yes.

Q Naphtha to farmers and others?

A Yes, sir.

Q You will recall there was a period there where there was quite active competition?

A Yes, sir.

Q You recall that?

A Yes.

Q Because it was quite serious, and at that time some of the

independents indulged in a practice of delivering for the price of ten drums of naphtha, delivering an extra drum free. You were aware of that at the time, I suppose. It was brought to your notice?

A I have never paid very much attention to any floating rumours in Turner Valley. I cannot be able to state that definitely.

Q Were you ever instructed by the Imperial Oil Sales Division to meet the competition as to price and quantity in Turner Valley in connection with the sale of Turner Valley naphtha?

A No, sir.

Q You never were. Did you have direct charge of that?

A Yes, sir.

Q You do not know of any instance.....

A Just what do you mean by meeting competition, direct competition?

A My experience, - and I am prepared to call witnesses if it is necessary - is that a farmer could go to your loading station in Turner Valley, at the garage supply station, for instance?

A Yes.

Q And could buy 450 gallons of naphtha and if the price was 10¢ he would receive not only the 450 gallons and pay for 450 gallons at the rate of 10¢, but he would get his supply tank filled up?

A Mr. Plotkins, that is not true.

Q That is not true, to your knowledge?

A I know it.

Q You know it?

A Yes.

Q You do not know of any instances where your men would do that?

A I do not.

Q You do not. All right I will not press it any further. I am going to read this question because I have given it some thought, if a published tariff specifically stipulates the quantity and conditions under which the pipeline will accept crude for storage and showing the probable demand and having in mind the particular type of proration which is provided, is it not then possible to properly weigh all those factors and determine the actual amount of storage facilities required, so as to allow a margin of safety for operating purposes, now that is quite an involved question but it refers to the same thing, it is possible to determine in advance the amount of storage which will be required under given conditions and to provide for it, is it your opinion, or do you disagree with that, that given a certain market, given, knowing how the production is going to occur, we assume again that production will be handled in this way or that way, knowing the percentage of extra storage you need to play with in your working, is it not then possible to say "Well we will need so many tanks with a volume of so much", and provide in the estimates that which will be necessary, in your budget for expenses, for the right amount of storage which will effectively cover the situation, would that not be the way that your company would do it?

A They would do the best they could, we would estimate it as close as possible.

Q Yes.

A But we do not know what the market is going to do this year,

[illegible]

[illegible] thousand, [illegible]

the quantity and conditions [illegible]

[illegible]

and leaving it also the [illegible]

in provision, is it not [illegible]

these factors and determ[illegible]

abilities required. [illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible] that [illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

which [illegible]

[illegible] would

is the way that [illegible]

They could be the best thing [illegible]

[illegible] as possible.

we do not know what Turner Valley will produce this year.

Q But you do know the probable market requirements based upon averages, your company does not work on one year's basis, it does spread itself, its operations, in order to evaluate a program for the company, and what I have seen of your company's records, they certainly do that, you do estimate the future by the past and you allow a percentage for the risk factor or changing factor, now having all that in mind, you know the volume of acreage in Alberta or in Western Canada is not going to change like 50%, you know it will only vary within a narrow percentage, we also know that the average crop for a given number of years is so much, well now we can provide for all that, your company does have statisticians that can determine that and then when you allow for these variables, you can then be in a position to accurately stop and minimize the amount of varying to approximately 5% at the most, and know how much storage you will require to take care of the situation, now if that is a fact, I am asking you if that is possible?

A Well they have not passed that information on to me, sir.

Q You are not called upon to give that information?

A No.

Q I realize that, you are told or at least you are informed or probably you are asked for your opinion as to the amount of storage which you think should be necessary, have you ever been asked by your company for that?

A Yes.

Q And where does that information go to?

A Mr. McLeod.

Q And do you know if your local offices work that out or whether

that is worked out in Toronto?

A Beyond Mr. McLeod---

Q You do not know?

A I would not be prepared to state.

Q You have, I understand, a number of men under you directly concerned with the operation and maintenance of the pipeline division?

A Yes.

Q Do any of those men divide their time between the pipeline and any other activity of the Royalite Oil Company?

A None of the men under my jurisdiction do.

Q None of the men under your jurisdiction?

A No.

Q So you are able to determine accurately what is the amount of money which your company pays for operating and maintenance labour in the pipeline division?

A Yes.

Q When it comes to the building of a trunk line or building of any lateral line, gathering line, you have the men under your control exclusively, the men who are hired and work in building that line?

A Yes.

Q They do nothing else, I mean their time is divided and they are hired for that particular purpose?

A They are.

Q And you have then a record of the costs that are incurred in building that trunk line or lateral?

A Our accounting department.

Q Yes, I mean you supervise the expenditure?

A Yes.

Q In other words, when you hire a man you see to it that he produces sufficient work to cover what, you see to it that he carries out his duties?

A Yes.

Q Naturaly as the manager you would?

A Yes.

Q So when you tabulate all the costs which you have "o.k'd" as proper, as pertaining to any given work, then the office is able to determine what it costs insofar as labour is concerned?

A Yes.

Q Does the same procedure not take place when it comes to the purchase of material?

A That is also handled by the accounting department.

Q True, but do you "o.k." the purchasing?

A Yes.

Q So that when you have or have "o.k'd" that item, when that item has your "o.k." it is charged I suppose on your instructions to your department, I mean your "o.k." automatically provides that the office will allocate it to your department?

A Yes.

Q So that the office is in a position to properly segregate your division from any other division of the company?

A Yes.

Q From an accounting standpoint?

A Yes.

Q Do you know that they do?

A I have no reason to believe they do not.

Q You have no reason to believe they do not?

A No.

Q Are you, I want to give a little thought to this next question because I do not know if I know exactly what I want; in 1936 for instance you had a result at the end of the year on your operating costs and your maintenance costs, well now in 1937, at the end of 1937 would it not be natural for you as a manager to ask the office to supply you that complete list so that you could compare it with 1936 to see how you were doing?

A Yes.

Q Well do you do that?

A I don't know whether I did it in that year but I certainly did last year.

Q Any time during the last 10 or 12 or 15 years?

A Oh yes, I have.

Q So for purposes of comparison?

A It is all gone into, it was the Royalite Oil Company, that was a division or a department.

Q So that you were given figures that would show you your operating costs as applied to the pipeline department and your maintenance costs and could I say also your overhead, in other words would those figures include the administration expenses?

A Well Mr. Plotkins, I am not an accountant, we have some good ones and that was not my department.

Q I am not asking you as an accountant, I am asking you as manager of the pipeline division of the company, you would naturally be interested to increase the efficiency?

A Naturally.

Q And that is one of the tools you would use to gauge or weigh your efficiency, you would take your, you would ask your office and most likely they would supply it without asking for it, at

least that is what we do and any other company would do, they would give you facts which would enable you to judge as to the efficiency of your management?

A Yes.

Q And in those facts would they not include a division of the administrative expenses and the amortization figure, do you recall that?

A Yes, they would if I called for it.

Q Have you ever had those statements in the last 10 or 12 years?

A I have not bothered a great deal on certain phases of it in the last few years due to the fact that I was pretty busy keeping the wheels turning.

Q Keeping the what?

A Keeping the wheels turning.

Q So that you say that you did not make a complete comparison in the last few years?

A I have made comparisons yes, but possibly not as minutely as you infer.

Q But you have made comparisons as to operating costs?

A Yes.

Q And maintenance costs?

A Yes.

Q But possibly not as to overhead, other matters of overhead?

A No.

Q You are very familiar with the operations of the Royalite in the field and that is why I am going to ask you these questions, while they do not relate directly to the pipeline they do relate to the operations of the Royalite and they are in turn reflected in the accounting system; the Royalite manages a number of wells for other companies in Turner Valley?

A Yes.

Q And how is that management, a separate man, sent or apportioned or allocated to those companies which you manage?

A Mr. Plotkins, in attempting to answer that I can only answer it for anything up to the end of 1937.

Q That is all I expect.

A And I would say that the operations of those wells would be carried on by the regular crew and an allottment of the charges would be made in the accounting department.

Q So that the same crew that operated the Royalite wells---

A Largely yes.

Q Mind you I know---

A No, a producing well, that well would have its own separator operator.

Q A producing well would have its own separator man?

A Yes.

Q And it would not, he would not do any work anywhere else, that is in the main?

A In the main, yes.

Q But the supervising help or supervising personnel?

A Yes.

Q Was the same, that is the Royalite personnel supervised the company they managed wells for, and their own wells?

A Yes.

Q Now there would then be the possibility of the office, that is the accounting office in Calgary?

A Yes.

Q Not being fully informed of the amount of time or the expenses involved in supervising or carrying on the activities of related companies, that is the companies under management by the Royalite, or is that very carefully, or was that very

carefully apportioned in the field by you or by your assistants?

A Mr. Burns has a capable staff in the accounting office in Turner Valley working under his direction and he looks after those matters.

Q So you have not the duty of apportioning---

A I have not the duties of an accountant.

Q That has nothing to do with accounting, you had to reflect to the accounting department?

A Yes.

Q What actually took place in the Valley, so that they could properly allocate the expenses?

A Yes.

Q Now an accountant is not capable of doing that if he was not familiar with the work and you were?

A I was.

Q You were in a position of either agreeing or disagreeing with the charge if it was not in your opinion properly allocated?

A Yes.

Q Would you not do that?

A I did do it.

Q So that you should see that the charges were allocated insofar as you are concerned?

A Yes.

Q To the wells managed by Royalite were properly made?

A Yes.

Q So far as you are concerned?

A Yes.

Q You do not know what happened to them afterwards, you do not know if the office reversed it or disreguarded it?

A I have not time to run each item down.

Q You are not concerned with it, it is not your duty?

[illegible]

A No.

Q Now the absorption plant system, and there are two absorption plants of the Royalite in Turner Valley.

A Yes.

Q It has its own gas gathering lines?

A Yes.

Q Does the same personnel, maintenance and operating, that operates and maintains the crude oil pipeline and the naphtha and so forth, also supervise or operate or maintain the line system of the two absorption plants?

A You mean at the present time?

Q At the present time or any time in the past?

A Not at the present time.

Q What about the past?

A In the years past when the company was small the same crews would probably service it or operate the pipeline carrying anything.

Q In them years you were in charge?

A I was.

Q And did you make an attempt at that time to divide the expenses between the two divisions?

A Yes.

Q So that so far as you are concerned the vouchers which you allowed to go to your accounting office did reflect accurately the operations in Turner Valley?

A As accurately as possible.

Q As accurately as humanly possible?

A Yes.

Q I realize that, so that at no time so far as the Turner Valley office is concerned, was it necessary to guess at what it cost

to perform any particular service in Turner Valley, is that correct?

A Yes, we supply the very best information we can in an integrated company.

Q Yes, now I want to go into the voucher system, you have a voucher, I understand on which is recorded the expenses and not only records the expenses but the expenses are also allocated, in other words, what are the means that you have when you were in Turner Valley, of properly recording the expenses and allocating them to the proper department, what type of paper or what was the means?

A Mr. Plotkins---

Q You or your office staff?

A Yes, that is fine but if you want me to go into details of that you might better call Mr. Burns.

Q Mr. Burns is not in Turner Valley?

A That is all right.

Q And you had a man, now you may not be able to answer and if you cannot we will produce someone who will answer,

A If you will give me specific questions that I can get hold of them I will endeavour to answer them.

Q You are not in a position to answer that?

A I do not believe in the way that you want them answered.

Q All I want is a sample of the voucher system, do you know whether or not, I will put it another way, do you know if there is any particular system, by letter or by number?

A Yes, absolutely.

Q That is what I want to know?

A Yes.

Q I have never seen one, so I am not in a position to say, I

[illegible] defense, [illegible]

[illegible]

[illegible] system, [illegible]

[illegible]

am just assuming from the standpoiint that it is a big company, well organized and they must have a proper system?

A We have.

Q You have a voucher system?

A Yes.

Q That would eliminate any possibility of error in allocating, or in other words in determining in what department the expenses originated?

A Yes.

Q That is right?

A Yes.

Q So that the office in Calgary was able to say that this is a pipeline expense, a pipeline repairs expense?

A Yes.

Q This is a pipeline capital expense and so on?

A Yes.

Q And in the other divisions the same way?

A Yes.

Q Another question which is a little involved, in view of the volume of oil likely to move through the pipeline would it not be better for all the companies concerned if the Royalite Pipeline terminal and the delivery facilities were not situated on the Imperial Oil premises and were completely separate from the Imperial Oil Refinery activities, if you were manager of that company and had no other interests, would not that be, would you favour such an arrangement?

A It would depend largely on the lay of the land and the possibility of obtaining a proper location for a tank farm.

Q A proper location for a tank farm?

A Yes.

Q Would it be necessary to be in the City with that location?

A

A No.

Q So there is any amount of land available, that would be suitable for that?

A Yes.

Q And from that point you could radiate to your customers?

A It would depend a great deal on your switching facilities, on your railways.

(Go to No. 3532)

Q Of course, we will assume that, that you would take a site that would be acceptable from that standpoint, such as any other company would, you would not go out on the bald prairie, you would pick a site that was served or could be served by the railway and also in a position to radiate economically to your customers, but, if possible, you could do those things, and you see no unsurmountable difficulties in doing that; remember, you are putting through five and a half million barrels of crude a year and it is likely to increase, and that is quite good business, and you are endeavouring to increase it, so as to reduce costs, naturally, if it is your own line, and you are not concerned with any other activities?

A Yes.

Q Now, you would go and pick a likely site and be in a position to be absolutely independent, so that you could accurately determine your costs; at the present time your costs are imposed on you, you have no say in the matter as to what the Imperial will charge the Lion Oil or charge anyone else for performing the said service, have you?

A No, that is entirely their affair.

Q Yes, so that if you were situated on your own tank farm and able to control your own operations and the operations increased and your costs decreased, you would be in a position then to render more services at less cost to your customers?

A Possibly.

Q Everything else being normal?

A Or possibly higher.

Q Yes, not if the volume increased?

A No;

C4
2a

Q And everything else was equal?

A No.

Q You would not make it approximately higher, it would be obvious the costs would come down and you would reduce your rate, to prevent someone else competing with you?

A If the volume decreased.

Q I am assuming, and all the evidence we have here is that the field is going to last some time and that the volume will increase with the consumption, and we know that in the past ten years the volume of consumption has steadily increased not even excepting the lowest depression years, so it is not likely that, barring crop conditions, which will affect it temporarily, that the volume will decrease, it is likely to increase, is that not the fact?

A I am not a geologist, sir, we thought that in 1929 when we built the 6-inch Loop.

Q You mean from the standpoint of production?

A Yes.

Q We will leave that to the Commission and I am not competent either, and I am not stating that question in that light, I am just asking if we assume that the volume is going to increase or even maintain itself, would it not be better for your company, if it was separated from the other activities of the Royalite, to be on its own in the matter of terminal facilities and loading facilities?

A Well, Mr. Plotkins, at the present time I have no complaint, everything is working out fairly satisfactorily, I think.

Q Well, you are not in a position to complain, are you?

A Oh, I sometimes do.

Q Oh, I mean in certain minor matters, but in matters of policy, are you in a position to decide?

C4
3a

A Well......

Q You help decide?

A Yes.

Q That is the position, do you know, you have the facts and have supplied them to the Commission as to the present boiling rate and the present A.P.I. gravity of the crude?

A I can get those.

MR. PLOTKINS: I believe, Mr. Chairman, that will be necessary for this reason, that I am going to secure a copy, a certified copy, of the crude oil distillation and the gravity of the crude oil that goes through the Cutbank pipeline, and show that there is a similarity and if anything the Turner Valley crude has a higher initial boiling point.

THE CHAIRMAN: Well, the witness says he can provide such a statement, and it will be filed by Mr. Nolan, so you will have it available.

MR. PLOTKINS: Yes.

Q Mr. PLOTKINS: Have you ever had an opportunity to read or see the distillation report on the Cutbank crude?

A No, sir.

Q So you are not in a position to tell us what the front end of that crude is?

A I do not.

Q As compared with Turner Valley pipeline crude?

A I cannot.

Q Now, to go back to this question of storage in East Calgary, is it true that the question of the management of that, of the quantity that is allowed to be in storage

will determine the rate of loss?

A Will you state that again, please?

Q In other words, are you free, as the pipeline division manager, to insist that the Imperial take its crude out of those tanks the same as you would insist on any other customer, or is it in your hands to decide?

A Up to the present time we have not insisted that any one of our customers take his crude out of these tanks.

Q There has been no reason to insist on that?

A No, not up to the present time.

Q But it is possible for the Imperial Oil to use them tanks as storage?

A Everyone is doing it that is putting oil through the pipeline at the present time.

Q I know, but have we, Mr. Frawley, any facts as to the separate amount of storage in these tanks?

MR. FRAWLEY: There is an Exhibit filed showing the relative holdings of the three companies.

MR. PLOTKINS: Mr. Chairman, I do not know if these facts are relevant, what I am trying to show or endeavouring to show is that the rate of evaporation will depend on how that storage is used and by whom. If I had the management of that storage I would use it to the utmost, if it was at the expense of the Royalite, if it was at my expense I might act differently because there is no doubt a storage evaporation loss and that may become quite a factor.

MR. FRAWLEY: Exhibit "79".

(Exhibit "79" here produced to Mr. Plotkins.)

MR. PLOTKINS: Mr. Chairman, not knowing this, these are not totalled and not knowing at the present

time their relative percentages of the crude shipped by the British American as against the Imperial Oil, I am not in a position to make or to ask intelligent questions, so I think what I will do is take this, or take a copy of it, and consider it, I am interested in whether the price of 3/10 of a cent, 3/100 of a cent, or whatever it is, a week or a day, in other words, he price for storage may be determined on the facts and the facts may show that the Imperial is taking undue advantage of its position in being in control of these tanks and, therefore, the average cost to the Royalite Oil Company, the pipeline division, of storage is more than it should be. Now, that is the only thing I am concerned with.

THE CHAIRMAN: If you want to examine the statement at your leisure, take up somethng else.

MR. PLOTKINS: Those are all things that go towards making a rate.

THE CHAIRMAN: Quite right, and if you want to examine it at your leisure, proceed now with any other questions you want to put.

MR. PLOTKINS: That is all, sir, thanks.

THE CHAIRMAN: It is understood, Mr. Coultis, that Mr. Plotkins wants to examine this statement and you need to be available to him to-morrow morning for further questions, if he wishes.

MR. FRAWLEY: I have two or three questions.

Q MR. FRAWLEY: Do I understand the Imperial Oil does all of the work except pay the salary of one checker, which is required in connection with your storage tanks in the East Calgary yards?

A It is cheaper, Mr. Frawley, to have their repair crews do any necessary fixing than it is to bring a crew in from Turner Valley.

[illegible]

Q So that they do the work and you pay the charge for doing that work, or your Division bears the charge for it?

A Yes.

Q Now wishing to go over any part of what Mr. Plotkins has been talking to you about, what are your views - let me put it this way - the Lion Oil Company or the Lion Refinery is presumably a competitor of the Imperial Oil in the refining and marketing of petroleum products?

A Yes.

Q Now does it occur to you there might be a way of taking out of the hands of a competitor - without ascribing any dishonesty in the least to this competitor - is there any way of taking out of the hands of a competitor the handling of the oil and getting all of it to that competing refinery rather than direct from your hands - because you are not a competitor you see, to the Lion Company or any other independent company. Would you care to comment on that proposition at all?

A That is rather a broad statement. I just do not know how to answer that. Would you mind stating that again?

Q I will elaborate it a little bit. Your Division is a separate entity?

A Yes sir.

Q Let us regard it as a separate company?

A Yes.

Q Then the suggestion is that you should be dealing at arm's length with the Imperial Refinery as much as with the Lion Refinery and the British American Refinery, and any other little refinery?

A Yes.

Q That is the suggestion. Do you agree that would be the ideal situation?

A I think so.

Q Would you care to say as to whether or not ways and means could be devised now, supposing such to be the case, which would take out of the hands of the Imperial and transferring the handling and the charging for all oil from its own premises to the Lion premises or any other independent premises.

A Well the simplest answer to that that I can make would be that any independent refinery would lay its line to the terminal tankage and accept his oil at that point.

Q Or lay his line to the trunk line before it reaches anybody else's premises?

A Provided reasonable connections could be made satisfactory to both parties.

Q I do not want to go into that. Now here is something else I want to ask you.

Q THE CHAIRMAN: I wonder if you should not just for our satisfaction. What is the difficulty about connecting up with Plotkins' refinery, the Lion Oils? You say if reasonable connections could be made. Is this a case where reasonable connections could not be made?

A The point is, Sir, that any time you tap or cut into the main line it is always a question of leaving it in as safe a condition, or as strong a condition as at the time it was put down. If it is necessary

to cut that line in two and put fittings in there, screw and couple fittings, threaded couplings, your line is weakened and it is rather difficult to cut that line and weld it at that particular point because you have a line full of inflammable oil. The main thing is to get your line back in as solid a condition as it was when you cut into it, and it also means cutting into that line and putting in a block valve, In the case of the Lion Refineries, the pressures have dropped pretty well at this end and a short distance East there is a decided drop down to the Bow River, so that your pressure at that point is very light so it would be necessary to put a valve in so that you could hold back on that pressure in order to force it to whatever point it was necessary or to whatever tank it was necessary to put it in. So that would mean cutting the line and putting a valve in there and making whatever other connections were necessary.

Q You expect to do that for the B.A., when their refinery is built, unless they put down a line of their own?

A Well those connections would be made at the end of the line, I expect, for the B.A.

Q At the end of the line?

A Yes. That would be back of the valves that are now installed in that line, at the river.

Q The practical difficulty of the connection with the Lion Oils Refinery is a matter of this expense which you mentioned?

A Yes.

Q Do I understand that the weakening of the line could

not be taken care of?

A I think it could be, sir. It will mean a great deal of work. It will mean emptying a considerable portion of that line and clearing it.

Q But it is possible?

A Oh yes, I think it would be ultimately possible.

Q The whole consideration then is, is it, from the standpoint of the Pipe Line Division, economically sound to do it?

A Yes, and particularly when you cut your main in or near the city it is necessary to take extreme precautions to see that no breaks or leakages occur in that district.

Q Which would add to your expense?

A Yes, and hazard.

Q MR. FRAWLEY: Don't you think that the British American refinery, if they came to you and said "If you do not give that connection just as and where" they thought they should have it most conveniently, that if you did not do that they would build their own pipe line, and that in order for you to keep that barrellage you would cut in the line just where they might pick it out?

A I do not think there would be any trouble in arriving at a location for them, because it is in a position that is very easily cut into.

Q It happens to be in a place where they could make the cut easily and the Lion is not just quite as easy?

A Not quite as easy, no sir.

Q As you said to the Chairman, if you really got down to cases, it would not be an insurmountable problem to provide a connection there for them?

A I would not like to say it was impossible, sir.

Q Mr. Coultis, Exhibit "95" shows you had a through put last year of crude oil alone of 5,565,627 barrels?

A Yes sir.

Q Then you had an additional small throughput of 421,715 barrels of absorption and separator naphtha, making a total through put of 5,987,342 barrels. Now, dealing only with the 5½ million odd barrels of crude which you had through the line. Mr. Coultis, you have seen the market develop during the years you have been there?

A Yes.

Q And as you look out over the year 1939 do you or do you not confidently expect to see a through put through that line of the same 5½ million barrels that you got in 1938?

A I do not know, Mr. Frawley. It depends on your crop conditions.

Q It depends on the crop conditions?

A And also depends on another factor that I think has a good deal of influence on it.

Q And that is what?

A We had such an excellent Fall that I believe a great deal of the farm work, such as cultivating, ploughing and preparing the land for crop, a large part of that that ordinarily would be done next Spring has been done now. So that that may cut your Spring work down, and what the growing season will be, I have not been in the country long enough to guess that.

Q Nobody has been in the country long enough to guess that you mean, Mr. Coultis? Well I just want to know

whether you are pessimistic or optimistic about the through put for 1939. We have got to get down to it sooner of later and we may as well get down to it now, as far as we can, and bring it out of you. We have to reduce it to barrels for the information of this Commission?

A Well, Mr. Frawley, I think last year was a phenomenal year.

Q Last year was a phenomenal year in your experience in the oil business. It has been suggested to me that every year there has been an increase in consumption of petroleum products in Western Canada, on the whole?

A Yes, I think there has, sir.

Q Let me call to your attention.....

A I cannot say about the depression years.

Q Let me call to your attention what Mr. LeSueur said at Ottawa, dealing about the same thing. This is what Mr. LeSueur said at the Ottawa Hearing last February. At Page 338. "Mr. LeSueur: We will have a 24,000 "barrel capacity: that is our estimate of the capacity. "THE CHAIRMAN: And 13,500 or 14,000 barrels will supply "the three Prairie Provinces. Mr, LESUEUR: Well I "think more than that. THE CHAIRMAN: Call it 15. "MR. LESUEUR: I would think do. You might say 16,000 "barrels, between 16,000 and 17,000 would supply all "the requirements of the Prairie Provinces. This is "based on, I think, an estimate of 1936. THE CHAIRMAN: "It might be different if there were a good crop. "MR. LESUEUR: A good crop, or you take the natural "increase in the sales of gasoline, you can count on "a certain percentage each year, Averaging it over the

"next few years might say perhaps 20,000 barrels."

That is Mr. LeSueur. He is a man who is very well versed in the petroleum industry in Canada, isn't he?

A Yes.

Q About as well versed as anyone in Canada?

A I believe so.

Q And would you accept his view about that?

A I naturally would, sir.

Q You can always look for an increase, a normal increase year by year in the gallonage?

A Yes sir.

Q He thinks that about 20,000 for the next two or three years. He is only speaking of a year ago. You do not depart from Mr. LeSueur's view as given at Ottawa a year ago do you?

A No.

Q I wonder if there is anything else.....

THE CHAIRMAN: He may have some views of his own.

Q MR. FRAWLEY: Oh yes, if you have some views of your own let us have them.

A My views are that that might be correct for Western Canada, but it does not necessarily mean that I am going to enjoy the privilege of putting that through this pipe line.

Q That is a very cautious answer. Let us bring it all out. Mr. Coultis, let us discuss it. Do you believe there is some danger - now that might be a good estimate for the consumption in Western Canada, but your pipe line might not enjoy it. All right. Now

elaborate on that, Mr. Coultis, please?

A Well I am still optimistic in this country

Q Yes.

A I do not believe that Turner Valley will be the only oil field developed.

Q Oh, do you think that between now and the crop season of 1939 that other oil might be going to market in the way of refined products from other oil fields than Turner Valley?

A It is very possible from the number of wildcats now operating.

Q With respect to which there has been no production yet?

A Taber is producing.

Q Where is it going into the market?

A I do not know where all of it is going. I believe some of it is moving to the Eastern Refineries, that is in Saskatchewan.

Q Some of it is moving into Saskatchewan?

A I believe so.

Q From Taber?

A Yes. However, there is some production there at the present time and they are still continuing to drill.

Q That was what you meant when you thought that you might have to share the Western Canadian production with other Alberta crude?

A Yes.

Q Now there is a pretty good drilling program on foot for 1939 in Turner Valley?

A Something like 14 wells now operating.

S. G. Coultis.

Q Now operating?

A With several shut down for various reasons.

Q Yes?

MR. NOLAN: Operating means drilling?

Q THE CHAIRMAN: Now drilling, Mr. Coultis?

A Yes.

Q 14?

A Yes.

Q And the shutdowns you refer to are presumably temporary shutdowns?

A There are 7 shut down for various reasons. I do not know whether they are all.....

MR. FRAWLEY: I have a statement I think I might usefully go into at this stage with this witness.

Q THE CHAIRMAN: 14 drilling of which 7 are shut down, or 7 more?

A No, 7 additional.

Q 7 additional shut down at the present time?

A Yes.

Q MR. FRAWLEY: Of course these figures include the wells which were started in 1938 and will be 1939 completions?

A Yes sir.

Q I want to talk to you about the wells that have just started in 1939, or within the last few days of 1938, so we can call them 1939 program wells. I have just sent for a statement, Mr.Coultis, I would like to ask you about some of these. But you do look for increased production in Turner Valley in 1939 over 1938?

A You mean new production from new wells?

Q Yes, new production over and above the maximum allowance for depletion in 1938?

A I look for new production, I do not know whether there will be enough new production to take care of the decline in the wells now producing.

Q MR. COMMISSIONER LIPSETT: Have you some idea, Mr. Coultis, of what number of new wells it would require to take care of the decreased production from the old wells?

A No, I do not, sir, because with your pro-ration on it is difficult to say how fast they may be declined or what the decline is. I would not like to hazard a guess on that. Because again when you ask the number of new wells necessary, there is no assurance what these new wells will produce, so it is dangerous on both sides.

Q We had some guesses and I was just wondering - from some of the previous witnesses - and I was wondering if you had any guess. I can quite see it would be much of a guess.

A It would be purely a guess, and it would be a dangerous one on both sides.

Q MR. FRAWLEY: Mr. Coultis, I was talking to you about your through put. Your production figures of crude oil in 1938 from Turner Valley was 6,025,000 barrels. From what you know of that field do you look for as much as that to be produced in 1939?

A Well, Mr. Frawley, that is entirely dependent on the market or the demand for the oil. I am satisfied

that it could be produced.

Q That that much could be produced?

A It could be produced, but if it will be produced I do not know.

Q And more probably?

A You mean could more be produced?

Q Yes, could more be efficiently produced looking forward to 1939? The new wells, the new parts of the field being drilled up?

A Well possibly, yes. I would not like to state that definitely.

Q Let me put it another way. We found in September last, September 1938, a daily withdrawal of about 28,000 barrels was a little more than the field could efficiently handle?

A Yes, they were pretty wide open.

Q That is pretty well admitted now, is it not?

A Yes.

Q From what you know about this field, and the new areas being drilled up, and the new drilling program, would you say if it should become necessary, assuming it should become necessary to take 28,000 barrels from the field the next peak season, that that would be or could be done without any damage to the field?

A No, I would not like to say it might, sir, because I think your field, unless you bring in considerable more production, your field will be largely wide open.

Q To do that, you mean to get that much?

A Yes, over a continued period.

S.G.Coultis.

Q You are in the field every day, or certainly every week?

A Yes.

Q You know something about the 1939 drilling program that is on foot don't you?

A Somewhat. I do not know it thoroughly. That is as far as the different companies I do not know what their plans are.

Q I am going to run over some of the locations with you, and I want you to give us what you know, or what you have been able to gather, and from your knowledge of the field. Anglo 4 has a well located on Legal Subdivision 6 of Section 17-18-2, W. of the 5th?

A Yes.

Q And drilling has commenced there?

A Yes sir.

Q Anglo 6 has a location on Legal Subdivision 3 of Section 17-18-2, W. of the 5th? The same section?

A I do not know what the Legal Subdivision is.

Q But at Anglo 6 there has been a derrick erected?

A Yes.

Q And I am told that it is waiting for the transfer of the rotary rig from Anglo 3 recently completed, is that so?

A I understand that is so.

Q Then there is a well call Calwin on Legal Subdivision 1 of Section 5-19-2, W. of the 5th?

A There is such a well.

Q And I am informed drilling commenced about the last day of December?

A It is on my drilling list.

Q And Command 2 has a location on Legal Subdivision 11 of Section 29-18-2, . of the 5th? Do you understand as I do that drilling will commence there within the next couple of months?

A I do not know, sir.

Q You do not know about that?

A No.

Q Do you know anything about the location of Davolite 1 on Legal Subdivision 10 of Section 18-19-2, W. of the 5th?

A I have heard of it.

Q I am told there is a prospect of drilling commencing in the near future there. Do you know about that?

A No, I do not know their plans.

Q Do you know that the East Crest has two locations in Section 6-19-2, W. of the 5th? And they are drilling one well Number 4?

A Yes.

Q And I understand they have another location. I am talking about East Crest 5 and East Crest 7 in that section. Do you know that these locations have been made and they have planned to drill?

A Just what I have been told, sir.

Q That is what you have been told?

A Yes.

Q And still dealing with East Crest, that the location of well No. 6 will be located on Legal Subdivision 5 of Section 4-21-3, W. of the 5th. Can you tell us about that?

A I have also heard about that. But I have no assurance.

S. G. Coultis.

Q No assurance? Do you take what you have heard as fairly reliable that that is the Company's program.
A I have no reason to doubt it.
Q Extension 2, I understand, has a location on Legal Subdivision 11 of Section 17-18-2, West of the 5th, There is a drilling commitment there to the C.& E. Corporation?
A I do not know about that one, sir.
Q Do you know that Lethbridge Pete has a location on Legal Subdivision 8 of Section 24-19-3, W. of the 5th, and a drilling permit has been issued and there is prospect of early drilling, within the next three or four months?
A No, I am not familiar with it.
Q Do you know that Royal Canadian 3 has a location on Legal Subdivision 12, of Section 29-18-2, E. of the 5th, and that there is every intention of drilling within the next month or so?
A Yes sir.
Q And Royalite No. 39. That is getting a little closer to home. Do you know the location of that, Legal Subdivision 13 of Section 29-18-2, W. of the 5th?
A Yes sir.
Q The cellar has been dug and you are waiting for the transfer of the rig from Royalite 36?
A Yes.
Q Do you know that the Valley Drilling Company has a location on Legal Subdivision 11 of Section 7-19-2, W. of the 5th?
A No.

Q Do you know anything about that at all?

I am told they are going to spud in within the next few days?

A I have not been to that location and I am not sure of it.

Q Now there is Vantage located on Legal Subdivision 12 of Section 32-18-2, W. of the 5th?

A Yes sir.

Q And they commenced drilling about the 22nd of January of this year?

A They have been drilling, yes.

Q And there is a well called Winalta, located on Legal Subdivision 15 of Section 5-19-2, W. of the 5th?

A Yes.

Q They commenced drilling about the 1st of the year?

A Yes, they have been drilling.

Q And there are some others. West Turner 4, located on Legal Subdivision 3 of Section 32-18-2, W. of the 5th. My information is they are pretty sure to get started on West Turner 4?

A I understand they have a location there.

Q How about Royalite, after 39, starting with 40 and going up to about 50? What can you tell us about that, Mr. Coultis?

A All I can tell you is hope. I am not sure where these locations will be, sir.

Q About how many wells do you think your Company will drill this year?

A I have not been told. I assume probably they will keep four rigs running. Other than that I do not

S. G. Coultis.

know their program.

Q They will keep four rigs running and keeping four rigs running means drilling four wells at the one time?

A Largely, yes.

Q 39 is the latest one that has been definitely decided upon?

A Yes sir.

Q And you think they may keep about 4 rigs running. That indicates then a pretty expensive drilling program, a pretty complete and satisfactory drilling program for 1939 to keep the field proved up?

A Fairly well, yes sir.

Q And to take care of the normal depletion that might be expected from the wells now producing?

A If they are lucky.

Q Oh yes, if they just have an average run of luck?

A Yes.

Q That being so, and depending again on the market, would you anticipate then there would be at least as much production in 1939 as in 1938?

A If there is the market to consume it.

Q At the moment you go no further than saying, or pointing to a reason that other crude areas in Alberta may take some of the market at Turner Valley and that consequently your pipe line is now enjoying?

A Yes.

Q You go no further than that?

A No.

MR. NOLAN: Now I wonder.....

MR. FRAWLEY: He does not.

Q MR. NOLAN: My friend puts it to you, you go no further than that in the sense you re saying that the market requirements will remain constant. But you have already mentioned crop conditions, and that will affect the through put of your pipe line too, will it not?

A Oh yes.

Q Over all this Western country?

A Yes.

Q What was the crop in 1938?

A I cannot recall the volume of bushels but it was one of the largest crops we have enjoyed in many years.

Q What do you say about the conditions last Fall? Was it an open Fall?

A It was such an open Fall and such an excellent harvest, the harvesting was done rapidly and still left the farmers a great deal of good weather in which to cultivate their land for next year's crop. which would ordinarily be done next year. That is this year.

Q When Mr.Frawley puts to you the locations, what does a location mean, Mr. Coultis?

A A location is......

Q Well what is it?

A It is a place or spot picked on a lease and decided upon on which a well will be drilled.

Q It does not mean there is a well drilling there?

A Oh no.

Q It is where they will drill a well if they drill?

A If they drill.

S. G. Coultis.

Q MR. FRAWLEY: It is suggested that I ask you whether you are supplied with cost statements of the operations of the Pipe Line Department?

A They are obtainable in the Accounting Office if I wish them.

Q I would ask Mr. Nolan to produce those statements which Mr. Morrison says he has not seen.

Q MR. HARVIE: There is just one question, Mr. Coultis. It is possibly on the record and if it is I have missed it. Can you give me the average gravity of oil that is carried presently, say, in the terminal tankage of the Pipe Line Company?

A It is varying from, running now from about 43½° Baume to 44½.

Q That is a fair average throughout the year?

A It has been a fair average for the past several months.

THE CHAIRMAN: Now there is some statement that Mr. Plotkins wishes to examine and there is something you want Mr. Nolan to produce.

MR. FRAWLEY: Yes, we just discovered that they were in existance, at least that is my information.

THE CHAIRMAN: Well you will come here with them in the morning if they are available, Mr. Coultis, and Mr. Nolan has no objection to their production. We will adjourn till that time.

(At this stage the Hearing was adjourned until 10.30 A.M., February 2nd, 1939),

....
....

The Province of Alberta

IN THE MATTER OF THE PUBLIC INQUIRIES ACT

—and—

IN THE MATTER OF a Commission, dated the 12th day of October, A.D. 1938, to inquire into matters connected with Petroleum and Petroleum Products

Commissioners:

The Honourable MR. JUSTICE McGILLIVRAY
(*Chairman*)

—and—

L. R. LIPSETT, ESQ.

Session:

CALGARY, Alberta FEBRUARY 2nd, 1939

VOLUME 29

INDEX

EXHIBITS

....

2nd February, 1939.
10:30 A.M. Session.

SAMUEL COULTIS, having been re-called, examined by Mr. Frawley said:

Q MR. FRAWLEY: I think we had finished last night, Mr. Coultis, this way "THE CHAIRMAN: Now there is some statement that Mr. Plotkins wishes to examine and there is something you want Mr. Nolan to produce", and Mr. Nolan was to produce certain statements that Mr. Coultis had referred to in Mr. Plotkins cross-examination and I think that that, Mr. Coultis, completes that part of Mr. Coultis' examination, that is on Exhibit "98" the regulation, so if we can clean that up in a few minutes and get on with Mr. Coultis' budget for 1939, was there anything of consequence you wanted to ask Mr. Coultis, Mr. Plotkins?

MR. PLOTKINS: First I would like to know if you feel it is proper that we should introduce a copy of the letter which I have handed to you.

MR. FRAWLEY: I have not had time yet to read it but it relates, Mr. Plotkins wrote a letter to Mr. McLeod, the manager of the Royalite Oil Company in connection with the connection which the company would have to give to Mr. Plotkins if they gave him any and the expense which would be involved. I am just at a loss to know how far to pursue that particular detail in view of all the work which we have to do. Mr. Plotkins might ask Mr. Coultis, if Mr. Plotkins questions what Mr. Coultis had to say about the expense and the peculiarity of making that connection, you might clear it up in a few questions. So far as filing Mr. Plotkins' letter to the company dealing with the same matter, that perhaps is not relevant.

MR. PLOTKINS: That letter only deals with it as a

detail, that is making a formal application to the company for a direct pipeline connection and for a pipeline tariff. It only deals with that part of it.

MR. FRAWLEY: I have not yet been guilty of shutting anything out. If I am guilty of anything it is that I may be putting in too much. While I had no objection to putting this in, I do not want to put in purely extraneous matter, it is a letter from Mr. Plotkins for Mr. McLeod, in which he makes formal application for this connection and deals with certain objections, what would you say Mr. Chairman?

THE CHAIRMAN: One more exhibit will not cause any trouble.

MR. FRAWLEY: Very well, my Lord, I then offer this as an exhibit.

(COPY LETTER FROM MR. PLOTKINS TO MR. McLEOD HERE MARKED AS EXHIBIT "133").

MR. PLOTKINS: I would like to make this further observation, that that letter was written after the observation was made to me, when I was asked some time ago if I had made that application and I answered "no" and that is the application now.

MR. FRAWLEY: I will read it now.

(Letter produced here read by Mr. Frawley).

Q MR. FRAWLEY: Now, Mr. Coultis, mention was made yesterday of some statement and I ask if you have any statements of the nature referred to in your cross-examination by Mr. Plotkins, and it was arranged that you would produce such statements if there were any?

A No, I have no statements other than those in Mr. Burns' office.

Q Do you mean that there was some misunderstanding, it was a misunderstanding if we understood there were separate statements.

A Yes. I am quite sure there was a misunderstanding, sir. When I want to know the cost of any particular piece of work I naturally ask the accounting department. All I have in my Calgary office is a stenographer.

Q Yes?

A And the accounting department is in the same building.

Q We had better clear that up if there is any misunderstanding, oh I see, now this is Mr. Plotkins cross-examination of you, Mr. Coutlis, at page 3525 of the record, for the 1st of February, he said:

"Q. And in those facts would they not include a division of the administrative expenses and the amortization figure, do you recall that? A. Yes, they would if I called for it. Q. Have you ever had those statements in the last 10 or 12 years? A. I have not bothered a great deal on certain phases of it in the last few years due to the fact that I was pretty busy keeping the wheels turning. Q. Keeping the what? A. Keeping the wheels turning. Q. So that you say that you did not make a complete comparison in the last few years? A. I have made comparisons yes, but possibly not as minutely as you infer. Q. But you have made comparisons as to operating costs? A. Yes. Q. And maintenance costs? A. Yes. Q. But possibly not as to overhead, other matters of overhead? A. No.".

Yes, but so far as statements are concerned, let us settle it now, you say the company has not prepared for you and you have

not had supplied to you from time to time statements showing what the pipeline operations cost the company?

A It is my practice, sir, always to go to the office and ask for any specific information I wish because I have not a duplicate set of books.

Q That is not the point, do they supply you every six months or every year with what the pipeline division of the company has cost the company?

A No.

Q In per barrel or gross

A No, that is in the regular books of the accounting department.

Q Oh yes, you pick out infomation?

A Oh yes.

Q Information is picked out at your request from time to time as to this item or that item?

A That is what I meant.

Q That is what you meant yesterday?

A Yes.

Q There is nothing in the nature of a statement like these (pointing to Exhibits) that is sent to you or that you call for or get from time to time?

A No, I have nothing in my office.

THE CHAIRMAN: I take it there are no statements of that character, that Mr. Morrison has not seen.

MR. NOLAN: No, and that is the point and that is important to all of us, otherwise it would look as if we had not shown what we have.

THE CHAIRMAN: All right, we accept your statement, Mr. Nolan.

Q MR. FRAWLEY: Now that finishes Mr. Coultis on the

pipeline aspect, the operation of the pipeline. It is suggested to me that Mr. Plotkins raised a question of gravity and boiling point.

MR. PLOTKINS: Yes, but it will take some time to go into that.

MR. FRAWLEY: Are you finished then, Mr. Plotkins, with your cross-examination with Mr. Coultis on that Exhibit "98" or anything relating to that?

Q MR. PLOTKINS: Only one question, Mr. Coultis, you have heard Mr. Frawley read that letter and in the paragraph where I refer to the alternative method of making that connection, do you agree or disagree with that view?

A Referring to the saddle?

Q Referring to the saddle and also the method of operation.

THE CHAIRMAN: Keeping the valve shut.

WITNESS: I would not put a saddle on a high pressure line, not on an oil line.

Q MR. PLOTKINS: How much pressure has that line at that point?

A That, in steady operation, sir, is not high at that point, but there is still 1000 pounds plus a hydrostatic head back of that and it could be very high in the case of a blockage or a shut valve.

Q So it is not your opinion that is a practical method of cutting into that line?

A Decidedly not, sir.

Q I suppose then, there is only one thing for me to do, Mr. Chairman, I have technical information available where it is done under similar circumstances and I can just put it in as an Exhibit.

THE CHAIRMAN: Very well.

MR. PLOTKINS: Thanks.

THE CHAIRMAN: Anything more from Mr. Coultis?

MR. NOLAN: No, that brings us to the end of that part of Mr. Coultis' evidence.

Q MAJOR LIPSETT: Mr. Coultis, there was some conversation when Mr. McLeod was giving evidence as to giving this connection to Mr. Plotkins' refinery and I was just wondering, undoubtedly in the earlier history, this pipeline was built for the operations of your company?

A Yes.

Q And led directly into your refinery?

A The first line, yes.

Q But there may be a situation developing where the pipeline now is something in the nature of a public service or a public utility subject to certain rate fixing powers and to that extent more control by the government or somebody and it occurs to me that, and I would like your views upon it, that the situation may be altered in this way that the pipeline must or should give exactly similar service to the Imperial Company on the one side and to any other company, the British American or the Lion Refinery or any other refinery that may be set up and it may be that, it may be up to us, I do not know, or it may have to be considered but if a rate, say 15¢ puts oil into the Imperial Refinery, that that same, however it is split up, should put oil into any other refinery. That may not be the view we will accept or it may not be considered as right, but I was just wondering whether in conjunction with Mr. McLeod anything has been thought of or whether you could look into it, as to whether an exactly similar service could be given to this refinery as is given to Imperial so that whatever rate was fixed would be considered the rate to

any refinery?

A There are certain considerations that I would like to have given thought to in that matter, sir, would be the time element entering into making that delivery. In other words I would like to make a reasonable delivery, a reasonably large delivery, say a week's supply or something like that in a given period.

Q Yes?

A Possibly eight hours or something. As Mr. Plotkins stated a minute ago if the connection was put there it would not be necessary to put a valve in. A valve several miles away in East Calgary could be closed down to force the oil into his tank. Well that would mean a control there without any direct control from that point, this man would have the valve closed. Now as tanks suddenly fill up or when they do fill up or in case of a line break or any accident at that point or in that refinery where it was decided to stop that flow, we would have a blocked line with pumps pumping at a 1000 pounds pressure plus 8 or 900 feet hydro-static head sitting in that point.

Q I would expect at once, Mr. Coultis, that whatever was done must be reasonable for the work?

A It must be carefully worked out.

Q Carefully worked out?

A Yes.

Q But I was wondering if it would be possible for you to talk it over with Mr. McLeod and to suggest something that you say that you could do, that you thought would be reasonable and with whatever conditions you think would be reasonable as part of that suggestion, it might eliminate a fact that is obviously causing some trouble and might enable, without any

further consideration, the fixing of a rate for delivery from Turner Valley to any reasonable sized refinery that would be a customer of the pipeline?

A I will be very glad to do that, sir. I will go over that with Mr. McLeod.

Q Thank you. I would be glad if you would.

A And I will consider it as carefully as I can.

Q I am not giving any indication of any opinion.

A No I understand.

Q I see you are looking at these things from a very reasonable point of view and it might be that you can make some very helpful suggestion, if you talk it over with Mr. McLeod.

A My only thought, sir, is in connections or changes made in the trunk line, we must make them in as safe a way as we possibly can to our own company, to the man being served and to the public.

Q That is what I had in mind, and primarily it is a matter which you might consider and talk over with Mr. McLeod and possibly you can make some suggestion that would eliminate this particular factor in the difference of service given to one company as compared to the other?

A You realize, sir, that the connection referred to is very close to the South main line of the C. P. R. Railway and it is, if I may say so, it is very close, it would be either side of it and there is a considerable fall that way of any spills, if a connection was made East of us, the drainage would be back to this point in here, that is why I would like to be very careful of any connection in that locality.

Q I assume that you would consider that but it seemed when Mr. McLeod was giving evidence, Mr. Coultis, that they were so close

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

together that possibly if you and Mr. McLeod gave it some further consideration that it might be possible to make some arrangement that would eliminate any suggestion that there is a different service given to one as against the other?

A I will be very glad to go into that.

Q Thank you, Mr. Coultis, I would be very glad if you would.

Q MR. NOLAN: All right then, now Mr. Chairman, that concludes that phase of Mr. Coultis' evidence and that brings us to what we have been calling "The budget for 1939" being the capital expenditures estimated for that year, and may I offer, sir, as an exhibit and it will be Exhibit "134" on the record, the details of the Financial Capital Budget for the year 1939?

THE CHAIRMAN: The Capital Budget.

MR. NOLAN: Yes, and the reason for producing this evidence is that it came out in the evidence of Mr. Hill, I think perhaps you will remember, sir, that it was proper for a company to place---

THE CHAIRMAN: $25,000 or something.

MR. NOLAN: $263,000.

MR. FRAWLEY: Mr. Hill was referring to $25,000.

MR. NOLAN: Yes, but Mr. Hill also gave evidence in respect to this document to the extent that he had seen the amount which was placed at the foot of it, but he did not go into any details in connection with it. Now it has been suggested, sir, that perhaps we can deal with this in a general way and not in the examination in chief go into all the details of each of these items.

(BUDGET PRODUCED HERE MARKED AS EXHIBIT "134").

Q MR. NOLAN: Have you a copy before you, Mr. Coultis?

A I have, sir.

Q This budget has been approved for the year 1939, Mr. Coultis?

A Yes.

Q It is prepared by you?

A Yes.

Q And these items contained in it and the amounts set opposite each item are your items and your figures?

A Yes.

Q Now I observe you have divided this under the heading of "Pipeline Division", into "Oil Gathering and Lateral Lines", that is one big heading?

A Yes.

Q "Tankage", is another heading; "Pumping Equipment", another heading; "Automotive equipment",another heading; and "General", another heading, and "Contingency" to provide for expenditures unforeseen at this time. Now directing your attention to the first of these headings, the oil gathering and lateral lines, what are all those items here under this heading, Mr. Coultis?

A The first item is for the extension of one of the pipelines in the South end of the field from Southwest Pete No. 1 Northward to Lowery Pete No. 1.

Q When you say your lateral lines, you mean lines that are part of the gathering system?

A Yes.

Q And the first item is an extension to Lowery Pete?

A Yes.

Q And you have opposite that the sum of $9400?

A Yes.

Q How are those figures arrived at?

A They are estimates prepared by my engineer in the field.

(Go to No. 3566)

S. G. Coultis.

Q You mean it will cost that?
A
A Yes.
Q To lay that particular extension?
A Yes, to complete the job.
Q Then the second is a two inch lateral from the British Colonial well No. 1 to tie to West Turner lateral, 1800 feet of two-inch pipe, and that also you have made on the figures prepared by the engineers in the field, that they place on that item?
A All of these are estimates.
Q And are these necessary connections or are they connections that may yet become necessary?
A Yes, that might become necessary, I believe this year.
Q What does this mean in the third item . Two-inch lateral from P. & H.?
A P. & H. Alco well. That is another well that is drilling.
Q That is the name of the well?
A Yes.
Q To tie to West Turner lateral?
A Yes.
Q THE CHAIRMAN: It is put forward on the assumption it will get oil?
A Yes sir.
Q Which you will need to gather?
A Yes sir.
Q MR. NOLAN: And that you will have to connect up both by an extension of line and by lateral to these wells mentioned, under first main heading of oil gathering and lateral lines?
A That is right.

S. G. Coultis.

Q THE CHAIRMAN: How many are in that class, all of these? The full $97,800.00:

MR. NOLAN: Yes, the whole $97,800.00.

A Yes, with one exception, there is a heater at the bottom of Page 1, of Exhibit "134" and that is not really a gathering line or a lateral. It will go in a gathering line, in a lateral gathering line.

THE CHAIRMAN: Put in the line and it keeps the oil warm in that line?

A Yes, your Lordship. The point is that we expected when this budget was made out, and still do, of possibly extending that 4 inch lateral line beyond the Highwood River and from that point we did not believe and do not believe yet that we could pump oil from that point straight through to the head of the trunk line without additionally heating the oil to keep it from congealing.

Q MR. NOLAN: It is a necessary part of the apparatus that may be required?

A Yes.

Q Now on the next page, the third item from the bottom, it says three-inch laterals to probable new independent locations. That is very general. What does that mean?

A It is necessary to put it generally, sir.

Q Why?

A When this budget was made out.

Q When was it made out?

A In September of last year.

Q Yes? It was necessary to what?

A To make provisions for wells that would possbly be

drilled or under the process of being drilled that would be completed this year, and which we were unable to make any measurements or have any definite information at that time for operations that might go on throughout the whole of the year 1939.

Q So something had to be put in in the estimates to provide for that contingency if it arises?

A Yes.

Q And it totals under the first head some $97,800.00. In your opinion, is that a proper figure to include in these estimates?

A After very carefully working that over with my field man, as we do every year, in preparing the budget, that is the final figure arrived at.

Q MR. COMISSIONER LIPSETT: The $29,000.00 in the last item, that is in the same category as the $9,900.00?

Q MR. NOLAN: There is an item of three-inch laterals and this is a four-inch lateral to new independent locations?

A Yes. That is the same.

Q These tanks, is it your opinion these tanks may become necessary this year?

A It is.

Q And the figure set opposite each of these items is your best judgment as to the cost?

A The cost of the tank installed, ready for operation.

Q Based on catalogue prices and that sort of thing?

A And on our past experience in building similar tanks.

Q That totals $48,900.00. Now there are two items of

pumping equipment.

Q THE CHAIRMAN: Before you leave that, Mr. Nolan. Is it that your present tankage is worn out or do you need additional tankage?

A We need two items of additional tankage in the field. We may need it, sir.

Q Yes?

A The fourth item, the 10,000 barrel pressure storage tank is a different item.

Q You do need it?

A That is for high pressure or high vapour tension products.

Q MR. NOLAN: We have not heard much about that. Describe that and tell us what it is?

A That is a tank proposed to be installed at the Calgary terminal for receiving light products, such as products from the absorption plant, absorption gasoline.

Q Yes?

A And there is no tank at the Calgary terminal to take care of that situation.

Q Does this item depend on new development or is this a necessary expense?

A That will probably be made necessary from the fact that we may be transporting absorption gasoline for different companies, and it will be necessary to store that and distribute from that point.

Q Then under the next heading of pumping equipment, I see that there is Number 4 pumping station to be located South of the Highwood River. That is the first item. $20,000.00. There is no pumping station

which we know, now?

A No.

Q And it is thought it may be necessary to construct one?

A From the appearance of the development in that section it will be necessary in all probability to construct one in that locality similar to the Number 2 and Number 3 field stations.

Q Then there is a large, a very large item for field pumping equipment to be installed as required, dependent on development. How is that item arrived at?

A That item is arrived at from the fact that it is becoming necessary to put in power pumping units, power pumping units driven by individual power units such as gas engines. Gas of sufficient pressure in crude oil wells is not sufficient to operate the steam lumps in many localities. We have been adding and purchasing this type of equipment throughout the past year.

Q Is that run by gas?

A A gasoline engine, or operating on natural gas.

Q Operating on natural gas. However, it is as you say dependent on the development in the field?

A Well it is, sir, and that does not cover very many units. That would be equivalent to approximately 13 of the smaller units, or 2 of the larger units, and approximately 8 small units, such as we have operating at the present time.

Q Then I see under the head automotive equipment, you have Replacements $5100.00, and New Units $7300.00.

That does depend again, does it, on the new developments, or is that a necessary expense?

A That will be a necessary expense. There is possibly one item only that is dependent on future developments, which would be the Chevrolet coupe, for an additional gauger.

Q Then under the heading of General, there are various items. Installation of racks in warehouse yard, $600.00. You need racks do you?

A Yes.

Q THE CHAIRMAN: Which warehouse yard is that? Down at the Imperial plant?

A That is the Pipe Line Division warehouse yard.

Q MR. NOLAN: Where is that?

A Located in Section 6.

Q Where, in Turner Valley or Calgary?

A In Turner Valley, yes.

Q At the tank farm?

A Yes.

Q Then it says "Erection of One-3 stall garage for Caterpillar Tractor and Portable Welding Machine." What is the reason for that?

A We have no place at the present time to store our ditcher, and that is outside this winter. There is no place for it.

Q And you want a garage?

A We want to put it in inside so that it can be worked on during the winter. During the winter it is necessary to entirely overhaul it, and to protect it from the weather.

Q Then you say Purchase of Small Tools and Equipment,

S. G. Coultis.

$2,600.00. Is that a usual expense from year to year?

A Yes sir.

Q That is based on your experience in past years?

A It is.

Q Purchase of portable compressor for testing lines, and for supplying air to air tools throughout the field. What does that mean?

A We have a very small compressor there that is not suitable for testing lines, and not large enough to drive air tools, in the past.

Q Yes? What does driving air tools mean?

A Air hammers, chippers for working on the tanks and not only at the station, but to use tools in places where it is dangerous to use electric driven tools.

Q The next item I see here is Purchase of 1 Air Motor for Driving Air Tools throughout the Field. That is the same sort of thing is it not?

A It is. That is for driving air tools.

Q Throughout the field. $300.00?

A Yes.

Q Is that an expense which you are bound to incur or is that contingent?

A We need it.

Q The first item on the fourth page, Replacement and Purchase of Engineering and Drafting Equipment, $500.00?

A Yes.

Q What is that, in a word?

A The general equipment used by the engineers for surveying, field work, and all of the different instruments and

equipment that they may require throughout a period of 12 months.

Q The next item is purchase of 6 Forboro Recording Pressure Gauges, and installation on Number 2 and 3 trunk lines. What is that?

A Those are pressure gauges to be installed that record a constant record of the temperatures.

Q In the main line?

A And the pressures on the main line at different points.

Q They do not record the temperature, they record the pressures?

A Yes.

Q In the main trunk line?

A Yes.

Q You have three for each line, is that the intention?

A Two for each line. There are three lines. 6 are asked for.

Q It says Installation on Number 2 and 3 Trunk Lines?

A That is right sir. We have the Number 1 line taken care of. There will be three on each one.

Q Is this a necessary expenditure?

A Well we consider it necessary to safeguard and improve the operations.

Q The next item is Extension of Warehouse Building to provide additional space for stock of repair parts, reconditioned equipment and new material. Is it deemed necessary to extend the warehouse building?

A We find, sir, at the present time it is too small. It is cramped. We are using it for a welding shop, a store house for supply parts, and second hand material. The second hand material naturally will

increase.

Q So it is necessary to extend the warehouse building?

A It is.

Q What is this next item, office furniture and equipment for Calgary and Turner Valley offices as required. $1500.00?

A That is put in to take care of any expansion or additional work required, that will require equipment throughout the entire year.

Q That may or may not be spent?

A That may or may not all be spent.

Q The next is Changes at the Calgary end of the Turner Valley-Calgary Trunk Delivery Lines which may become necessary through changes in the handling of oil to different refineries. $3000.00.

A That is just in case it becomes necessary throughout the year to make connections or alterations to these lines to route oil to the refineries.

Q And is again dependent on whether the necessity arises or not?

A Yes.

Q The last item is Addition to Office Building at Turner Valley to accommodate increase in Accounting Staff and Addition to Vault. The building in the office group now being used as residence might be utilized in lieu of this addition with a new money outlay of $1,900.00. What is the position of the office building down there?

A At the present time we have no vault in our office and it is necessary to instal such a thing. And if it is found necessary throughout the year or any time

S.G.Coultis.

in the year to increase the office space, it may be possible to take a bungalow close to our present office, using the same for additional office space. The building we are now using is full.

Q If it does become necessary, that is contingent again?

A Yes.

Q It would involve an outlay of $1900.00, and then there is a contingency item here, to provide for expenditures unforeseen at this time. Why is that put in?

A That is put in to meet any conditions that may arise, that we did not foresee at the time of preparing this budget, which was prepared in September and presented for approval many months ahead.

Q In your opinion, this is a proper estimate of the necessary and contingent expenses which will be incurred by the Pipe Line Division in the year 1939?

A I believe it is, sir.

Q THE CHAIRMAN: Do you know what it was for 1938? Exactly the same?

A I do not, sir.

Q For necessary contingent expenses and on capital account?

A I could get....

Q I suppose you have your budget for that year have you?

A We have, yes.

Q And you will produce the 1938 one?

A Yes sir.

Q Very good.

Q MR. FRAWLEY: Mr. Coultis, this budget looks forward to a pretty vigourous year in Turner Valley does it not?

THE CHAIRMAN: Excuse me, Mr. Frawley.

S. G. Coulson.

You spent a lot of money on your pipe line in 1938?

A Yes sir.

Q You are not expecting putting another pipe line down this year or next?

A No sir. There is only one item in this budget of any size that directly refers to your trunk lines, and that is the recording pressure gauges.

Q Yes. What I wanted to get was a statement - or you might just produce the budget you have. If you had anything to do with the Pipe Line that would be over and above. I was curious to know to what extent it was comparable with this year's statement?

A It would be very much higher.

Q For what reason, do you know, because of the pipe line installation?

A Yes, due to the installation of the main line and to a very large extension in the gathering system, for . and tanks and new pumping stations.

Q Do you remember what the total was?

A I do not. I can present that figure.

Q And in 1937 did you have any expenditure on the pipe line?

A Yes sir.

Q And that takes you back to 1936, and in that year?

A Yes. That would be largely, I believe, in those years the gathering system and pumping equipment?

Q All right, Mr. Frawley.

Q MR. FRAWLEY: You would have budgets, I mean broken down like this pretty well, with the same classifications in 1938 and 1937.

A Yes.

Q As the Chairman suggests?

THE CHAIRMAN: And 1936?

Q MR. FRAWLEY: And 1936. Would you mind bringing the 1936, 1937 and 1938 budgets, details of physical capital budget as it is called?

A 1936?

Q 1936, 1937, and 1938 I think will be sufficient. Now, as I said, Mr. Coultis, this looks forward a year of real activity in Turner Valley, does it not?

A Yes, it looks -- it is prepared with a view to taking care of what possibly may develop throughout the year.

Q Yes, and it has been approved by the Board of Directors of the Royalite Company.

A It has been approved by Mr. McLeod.

Q Are you authorized to go out and begin making any of these expenditures? Immediately?

A Yes.

Q So it is fully authorized and approved?

A Yes. That is the final budget.

Q And you are the man that has to spend the money and as far as you are concerned you have the authority to make these expenditures right now?

A Yes.

Q Any of them?

A Yes.

Q As I say, it is a good sized one, is it not, $263,000.00?

A It is fairly good sized budget.

Q It means that in the opinion of your Company there is going to be a fairly good sized year in Turner Valley in 1939?

S.G.Coultis.

A Yes. Mr. Frawley, the items, several items in there, large items, do not cover a great deal of equipment. Such as $40,000.00 for pumping units.

Q No? But those are expenditures made looking to a fairly heavy use of the pipe line system?

A That is right.

Q And it does not contemplate, to me at any rate - or to a layman - it does not contemplate in the opinion of your Company a very much diminished through put?

A No, I would not say it does.

Q It contemplates a pretty considerable increase in the through put?

A It is necessary for me to be prepared should there be a large through put.

Q Quite so, and in the good judgment of your Company they look forward to an increased, through put through the pipe line?

A Beyond last year.

Q Beyond last year?

A Well I would not say this budget is based on that, Mr. Frawley. I feel that if there is as much put through the original development that is going on and figured later on a pro-rated basis from many additional wells which will be necessary to deliver the same volume of oil, a great deal of that expenditure would be accredited to that.

Q Then we have arising out of this budget a contemplation of the drilling of several new wells?

A Oh yes.

Q You say this budget does not contemplate any appreciable

diminution of the through put from last year?

A No sir. Nor an increase.

Q It contemplates at least 6,000,000 odd that you put through last year, or 5½ million?

A It is prepared with the idea of handling the field up to the capacity of the trunk lines, if they should be called upon to do so.

Q And it contemplates the possibility that they may be called upon to do that?

A Yes.

Q There is nothing in the picture at the moment that indicates to you that that is not a reasonable expectation?

A Not so early in the year.

Q Now, about these expenditures, do you expect them to be made soon or late, early or late in the year 1939?

A Spread out over the entire year.

Q Pretty consistently spread out?

A Yes.

Q Are you going to build a Number 4 Pumping Station now or after you see the oil?

A Not at the present time, not till I see the oil.

Q So if you do not see the oil till late in the summer, there is just a little distortion there. You are going to have the rate, the value in a rate which this Board fixes for seven or eight months before the expenditure has been incurred?

A At the present time, Mr. Frawley, we are handling practically all the oil we can handle from in the vicinity of the Highwood River.

Q Yes?

A With the present equipment, and there is considerable drilling, and I believe contemplated drilling along the Highwood and South of the Highwood which will make this additional station necessary.

Q Oh yes, I am agreeing with that. I am just wondering whether there is going to be anything out of balance there if you do not make the expenditure until later on in the year after you have got the benefit of this rate for 7 or 8 months?

A It is very nearly out of balance now. I had hoped to get through till better weather before making that installation.

Q This is just a budget for 1939. As a practical thing you cannot go beyond one full year period can you?

A Oh no.

Q So that it would not be - if we are projecting ourselves into the future as was mentioned yesterday, it is not a practical thing to project ourselves beyond the end of the year 1939?

A No sir.

Q And any rate, therefore, that is fixed would have, in your views then, would be one which could contemplate the year 1939, but not beyond that?

A Well I have not given very much thought to the length of the rate. I personally would not like to see it too cast iron.

Q Do you contemplate revision of the rate perhaps, annually? Or almost an annual revision of them? I mean by that a review of it, either increasing it or decreasing it, or letting it alone, but a review of the rate about once a year?

A Well, Mr. Frawley, I am not in a position to predict what will happen with reference to rates.

Q Would that look to you as a sensible thing from a practical standpoint? You make your budget up every year, and you look forward to a year's operation about this time of the year. I am merely suggesting to you if that would not be a reasonable thing to have the rate reviewed every year in the light of the operations of the year past and the contemplated operations of the year to come?

A I think it would be possible, yes.

Q You do not think we need concern ourselves either as to through put or expenditures now beyond the year 1939?

A No, I do not think it is absolutely necessary.

Q You provide for 11,120 feet of new three-inch lateral to independent locations. When you made that figure up how many new locations did you have in mind? That is on Page 2, $9.900.00?

A That is approximately two miles of pipe. It could take care of from four to five wells, depending on where they are located.

Q That only represents four or five wells.

A Yes, if they are not drilled in the centre of the proven area, it would probably mean half a mile of line to each well, as much as half a mile. They will vary. It is very difficult to estimate on footage. But I feel confident that much three-inch line will be required.

Q Let us understand it. These laterals are transferred

from well to well, after.....

A After a well is depleted or quits flowing, yes.

Q You make an allowance in there. These laterals are useful to serve new wells after they have finished their job at the old well?

A Yes. But we have not reached that point yet in the crude wells.

Q I wondered if that figure of 11,120 feet of this three-inch pipe, whether it is a figure resulting from a calculation of so many wells or whether it is just.....

THE CHAIRMAN: A horseback figure?

Q MR. FRAWLEY: Yes, whether it is a horseback figure?

A It is the best - using your phrase - it is the best horseback figure we could use to meet that situation.

Q MR. FRAWLEY: Then you have got, of course, the last item which is in the same category, $29,400.00 for probable new independent locations. 19,900 feet. That is to service projected wells is it not?

A Yes sir.

Q And that is a horseback figure too is it, or have you in mind a certain number of wells. I mean an estimated number of wells?

A We estimate the number of wells and make the best estimate we can of the footage that may be necessary to reach those wells.

Q And how many did you estimate under that category?

A Six to eight wells.

Q What do you mean by independent locations. Is there

anything particularly attached to that?

A Wells drilled by other companies than Royalite.

Q Where are your own, where are the Royalite services being provided?

A The second item on that page, sir, is the two-inch lateral from separator battery to Legal Subdivision 4 of Section 8-19-2-5.

Q Yes, that is $800.00. Is there not something comparable to those items I have called your attention to, the $9900.00 and the $29,400.00, haven't you got something comparable for the Royalite wells?

A The Royalite wells that we estimated at that time would be drilled largely in the proven acreage and close to our present gathering system.

Q Yes?

A Which would not require large extensions to the gathering system.

Q I see. Now you know, of course, that Mr. Hill in his report of May 1938, estimated that the yearly expenditure over the next 10 years for oil gathering and lateral lines would be $50,000.00, and then in his December 1938 report he increased that to $125,000,00. Do you know whether or not that estimate of Mr. Hill's, only relating to the first item in your budget, namely oil gathering and lateral lines, totalling $97,800.00, we want to understand the comparison of his figures with yours if we can?

A I would assume that Mr. Hill took the operations of the entire system into consideration.

Q Well we had just better be fair to Mr. Hill, certainly.

C2
1

Q Now, he, on page 16 of his May report, Exhibit "97", he deals with it under the heading "Probable Cost of Building and Operating Extensions to Gathering System". Well, then he says "As the Turner Valley field increases', page 16, 'As the Turner Valley field increases in area the division will be required to lay gathering lines to the new wells and install pumping facilities at such wells", and then he estimates $50,000.00 for that, he calls it a reasonable estimate of the additional costs, both for construction and operation, which the company can be expected to have to incur in the future to provide connections to additional wells and meet the additional operating costs of handling them, and I think he uses the same language in his December, 1938, report, when he gives a figure of $125,000.00......

THE CHAIRMAN: If it is made you had better look it up.

MR. FRAWLEY: Yes, he says on page 19 of the December, 1938, report, Exhibit "96", "As the Turner Valley field increases in area the division will be required to lay gathering lines to the new wells and install pumping facilities at such wells. At present 12 wells are being drilled in the field. Then "In the opinion of the engineers the sum of $125,000.00 per year is a reasonable estimate on the average of the additional cost both for construction and operation which the company can be expected to have to incur in the future to provide connections to additional wells and meet the additional operating costs of handling them." So he is talking, the two estimates are for the same thing, it does seem, from reading it.

A I am not so sure.

Q You mean as between the fifty and the hundred and twenty-five?

A No, between this budget and his estimate, this is a definite estimate for one year.

Q And it covers, you see, it is divided into oil gathering and lateral lines, tankage, pumping equipment, automotive equipment and general?

THE CHAIRMAN: And the witness makes the point that Mr. Hill is averaging it over a period of ten years.

A I think so.

Q MR. FRAWLEY: Frankly, it occurred to me that Mr. Hill, I do not want to check it all up, but I do not want to be accused of improperly interpreting his estimate, and it occurred to me he only was dealing with the $97,800.00, and that would throw it quite in line with you?

A I do not think so, I think that report possibly covers several years, several following years.

Q You mean averaging one with the other?

A Yes.

Q And include all the items in your budget, Exhibit "134"?

A Well, I just want to know, now......

Q THE CHAIRMAN: Do you agree with that, Mr. Coultis, you did not answer?

MR. FRAWLEY: Oh, I am sorry, Mr. Coultis.

A Including all of this budget?

Q Yes, including the items, including items of this character?

A I am not prepared to say how much he considered this budget. I know he was familiar with it.

Q Oh, with this actual budget, Exhibit "134"?

A Yes, I think he saw this budget.

Q Well.......

Q THE CHAIRMAN: Did you discuss it with him, did you discuss the budget?

A Yes, he mentioned it.

Q You being the one interested?

A Yes.

Q MR. FRAWLEY: Did he discuss it with you after he had made up his December report?

A I think so, sir, after he came back the second time with his report.

Q Yes.

MAJOR LIPSETT: Doesn't Mr. Hill give it over a period, Mr. Frawley, as the witness suggests?

MR. FRAWLEY: Yes, he does, and that may be the explanation. What he has done, this year he is up, the next down, and so on. I think I understand what Mr. Hill has done.

Q MR. FRAWLEY: Now, some of these items, Mr. Coultis, are, have been treated in the past, as operating items, have they not, and will you tell me whether they have or not; for instance, on page 3 under the heading of "Automotive Equipment" you want $5100.00 for replacement of automotive equipment?

A Yes.

Q Is it not a fact that that has been handled in the past as a charge to operating costs?

A Well, all I can say, sir, is that it has been necessary to put that in the budget in the past several years.

Q Yes, there has been an item of that kind every year?

A Yes.

Q Is that consistent with finding it as we do now, as I understand it as we do now, in the operating costs?

A Well, the capital budget in the past several years, it has been necessary to show your automotive equipment.

Q Yes, the money has been spent, the money has been necessary and it has been spent but I am talking, perhaps, about whether it has been reflected in the books of account, we find the item, you see, replacements, the cost of operating the automotive department as expenses from year to year and charged up against the revenue in that year, and this occurs to us to be a departure from that principle. Now, it may not be in fact, what do you say about that?

A Well, I do not think it is a departure from it, but I would like not to pursue that too far. I would rather have the accounting man take care of that.

Q Has Mr. Burns gone over this budget with you?

A He has gone over the budget, yes.

Q He has approved of it, presumably, from that standpoint of what is properly capital expenditure and what is properly operating expenditure?

A I believe so.

Q There is another item of the same kind, I might just bring to your attention, on page 3 under the heading of "General", the "Purchase of Small Tools and Equipment, $2600.00." I suggest to you that that has been an operating expense, a proper operating expense made in the very year in which it was spent?

A Mr. Frawley, that purchase of small tools and equipment, a great deal of that refers to special equipment that would be used by the pipeline division.

C2
5

Q You mean rather then replenishing your series of ordinary tools?

A The replacement of small tools and equipment would be carried on through the large warehouse.

Q Yes. Now, there are only one or two items of that kind, on page 4 there is an item of $1500.00 for office furniture and equipment for Calgary and Turner Valley as required; now, is that all strictly pipeline division?

A Yes.

Q When you speak of Calgary, do you mean your own office?

A Yes.

Q Your own personal office?

A Yes.

Q And when you speak about the addition of an office building at Turner Valley, or an addition to the office building at Turner Valley to accommodate increase in accounting staff and addition to vault, $1900.00, that is strictly pipeline, of course?

A Yes.

Q Now, let me understand what would happen, may I ask you what would happen if it should be that the whole $263,000.00 were not expended, let us assume that the Commission accepts the $263,000.00 and makes provision in its rate for the amortization of those capital expenditures in 1939, $263,000.00, and if it should transpire that you do not spend any more than say $150,000.00?

A It will remain in that budget until the end of the year.

Q Yes, and then, it is suggested to me that it falls into accumulated profits?

A Mr. Frawley, I cannot answer that, I know this, that I cannot carry any of these items through into the next year.

[illegible]

[illegible]

[illegible]

[illegible]

C6
6

Q You cannot use any unexpended portion of the money into the next year?

A No.

Q Like a Government vote in that respect, apparently?

A Yes.

Q Well, now, this $20,000.00, which you are going to spend for a 10,000 barrel tank at the Calgary end, yes, on page 3, "One 10,000 barrel pressure storage tank at pipeline terminal, Calgary", $20,000.00, where is that to be built?

A That would be built in the vicinity of the present terminal tank.

Q On the Imperial Oil property?

A If there is room available.

Q Otherwise, you would build it on your own property, some property which you will acquire?

A There has no site been picked for that tank at the present time.

Q At the moment, at the moment, strictly speaking, you have no terminal, the Royalite Oil Company pipeline has no terminal, you simply run into the Imperial Oil Refinery yards and you call that your terminal?

A The terminal is located in the lower yards of the refinery.

Q We have been talking about a proper terminal and so on, but in fairness to you this pipeline was built simply as an appendage to the Imperial Oil refinery, to handle only that refinery's oil?

A The original line was built extending into the refinery yards to deliver oil to that one refinery.

Q Yes, its need arose because of the refinery being there?

A Yes, the first line.

Q And it is not unreasonable, therefore, as originally

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

built and contemplated, that you ran it right into the Imperial Oil's refinery?

A Yes.

Q But now you say that you might build that outside the yard on some property of your own if there was not room in Mr. Moore's yard?

A If we were forced to leave the yard that would be the logical conclusion.

Q THE CHAIRMAN: And what would that cost, supposing you had to replace all these tanks and provide your own, supposing you were a separate pipeline company and you had to get your own tanks and everything else that a pipeline company usually has, disassociating it entirely from the Imperial Oil, what capital expenditures would you have to make?

A That would be a quick estimate, sir, possibly three to four hundred thousand dollars, providing how far these lines had to be swung, to be moved, and if it was necessary to set up a steam plant to take care of it, light and water.

Q MR. FRAWLEY: Which you are now getting from the Imperial?

A Yes.

Q And paying for it, I suppose?

A Yes.

Q Well, now, you are going to build a tank, it is not feasible or practical to rent this 10 thousand barrel tank, the Imperial Oil refinery has not a tank of this kind that they could rent to you?

A Not that I know of.

Q So you contemplate building your own and paying for it over a period of years?

[illegible]

A I am not sure how it would be paid for.

Q You have not compared the cost, the net cost of building your own tankage, of replacing, as the Chairman has brought to your attention, of replacing the tankage which you are now renting at $35,000.00 a year from the Imperial Oil, you have not compared what the cost would be of carrying the necessary expenditures?

A I have not gone into that.

Q Which you have stated to the Chairman as being somewhere around three or four hundred thousand dollars?

A No, I have not gone into that.

Q Well, now, about this tank, I would like to ask you something more about it, what did you say it was going to be used for?

A It would be used for high vapor tension products such as absorption gasoline, or if it was found necessary to store any other white product of a high vapor tension, such as water white or clear naphtha, should it be developed.

Q That is, the Royalite itself would need to store those?

A In all probability.

Q Well, now......

A If it was for more than one customer.

Q At the moment you have only one customer for those goods?

A At the present time I believe it is all handled at the one refinery.

Q Well, now, let me understand, you certainly transport for the Imperial Oil its own absorption products?

A Yes.

Q And you also transport for the British American its own plant products?

C2
9

A Yes.

Q Which they make in the Valley?

A Yes.

Q And that is not stored by you at all at the moment?

A Not at the moment, no, sir.

Q You deliver that to the Imperial Oil tanks?

A Yes.

Q And you do not even, you have not even got storage facilities for taking care of that product?

A No, sir.

Q Let us understand that, the storage you pay $35,000.00 a year for.....

A Is crude oil only.

Q Is crude oil only, so you do not hold yourselves out to-day for storing any of this other absorption product ?

A Not at all.

Q At the moment that goes to the Imperial Oil?

A Yes.

Q And is held either on its own account or on the account of the B. A.?

A Yes.

Q Now, you contemplate that there may be a change in that programme?

A Very possibly will be.

Q Because if there is no change in the programme, there would not need to be any change in the storage arrangements?

A No.

Q So you contemplate the Royalite Oil Company as such may have to hold, transport and hold for other companies this absorption product ?

A It is possible.

Q Such as the Mayland Company, or some company like that?

A Any company that may wish to have their product transported.

Q Yes, and this will be the first time that you have ever, as a carrier, undertaken to store for people?

A Store that type of products.

Q Or any products, oh, yes; well, you have been storing for the Imperial Oil, that is right; frankly , it is difficult to understand that. Well, now......

Q THE CHAIRMAN: You started storing when you started paying rent for tanks?

A Yes.

Q Prior to that those who had oil to store did it themselves at their own expense?

A Yes.

Q MR. FRAWLEY: You have $25,000.00 there to come and go on, have you not?

A Yes.

Q That is looking forward to development, drilling development and production of oil in the Turner Valley?

A That is put in there to take care of the unforeseen things which we hope $25,000.00 may cover.

Q But the expenditure of which would be largely the result of even more success in the exploration for oil in the Turner Valley than the ordinary budget contemplates?

A It might be well taken up with outlying wildcats, new wells developed in a territory some distance from our present gathering system.

Q Like that Calling Valley and New Valley?

A Yes, possibly.

Q Mr. Nolan wonders why I bring that up, but it could serve, as I understand it, it is not unreasonable to expect your pipeline system to serve that Calling Valley and New Valley?

A It is not impossible, sir.

Q THE CHAIRMAN: And I suppose discoveries quite as unlikely have come to pass in that Valley, seemingly unlikely at one time?

A Yes.

MR. FRAWLEY: That is all I have to ask.

Q MR. NOLAN: One question arising out of Mr. Frawley's examination, he spoke of the light and the heating of this terminal storage tank in East Calgary, Mr. Coultis?

A Yes.

Q And Mr. Frawley said that you were getting that light and that heat from the Imperial Oil and paying for it?

A Yes.

Q Well, how do we pay for it as a Royalite Company?

A I think it is included in the rental we are charged on those tanks.

MR. NOLAN: That is all.

Q THE CHAIRMAN: Does the Royalite make up a budget each year, do you know?

A Yes.

Q The company as a whole?

A Yes.

Q And you would have each department in that company making a budget?

A There is a budget made to cover each department or activity.

Q Yes, we have heard much of your using things that belong to the Royalite Oil Company, or of departments not associated with the pipeline department, your percentage of indirect assets, as they were called, or something,

those tools that you are going to buy, for example, are they exclusively for the pipeline?

A Some of them.

Q Couldn't the Royalite use them, the departments other than the pipeline in the Royalite?

A They could, sir, but any of these tools will be kept in the pipeline division warehouse or distributed among the crews, the different crews, of the pipeline division.

Q THE CHAIRMAN: There is a sheet, Mr. Frawley, showing the percentage of assets and so on?

MR. FRAWLEY: Yes.

THE CHAIRMAN: If this is all so simple every year, why are we guessing at it? They make up a budget and they know what they spend for pipelines. Apparently quite clean-cut, at the beginning of each year they budget and at the end of each year Mr. Coultis knows exactly what he spent and he cannot carry it over to the next year, and yet when we are dealing with percentages, when we come to the statement of assets of this character, why are we, I am not asking you, Mr. Coultis, I know you are not supposed to know or you would not know why.

MR FRAWLEY: I am told, in answering your question, Mr. Chairman, we had better deal with it in evidence.

THE CHAIRMAN: Mr. Coultis cannot.

MR. FRAWLEY: No, he cannot. Mr. Burns is about the next up.

THE CHAIRMAN: Very good. No doubt there is some explanation of it.

MR. FRAWLEY: Is that all now, for Mr. Coultis, that is all for Mr. Coultis.

Q THE CHAIRMAN: I want to ask Mr. Coultis, if

I may; Mr. Coultis, would it be much trouble for you to take off, without taking the time to go through this item by item, just to take off for our benefit those items which you hope to spend because development will justify it and those items which you must spend?

A Yes, it can be done.

Q Quite so.

A The first item.....

THE CHAIRMAN: Well, I daresay counsel would like to get on with something else, and we might call you back at your leisure.

MR. FRAWLEY: I will call Mr. Munro.

....

JOHN LESLIE MUNRO, having been first duly sworn, examined by Mr. Frawley, said:

Q Mr. Munro, you are the son of Mr. John R. Munro?

A Yes.

Q And Mr. John R. Munro operates a refinery known as the Monarch refindry quite close to the City of Calgary?

A Yes.

Q How far out and in which direction?

A About two miles east from the City limits on the Strathmore highway.

Q And how far is that refinery from the Imperial Oil refinery in East Calgary?

A Across country?

Q Well, by the most, tell me in the different ways, by railway, if there is access by railway, and also by highway.

THE CHAIRMAN: And as it is suggested, as the crow flies, as a pipeline would go.

Q MR. FRAWLEY: Yes, just give us an idea of what the distance would be practically three ways, one if there was a pipeline built straight across country?

A Well, it is rather hard to say, I have not looked into that part, that is so far as the pipeline from the Imperial over there, but I imagine it would be somewhere around two miles.

Q And what is it by highway which the trucks can use?

A The gravelled road, that is an all-weather road.

Q An all-weather road?

A I imagine about five.

Q About five miles?

A Yes.

Q Now, is there any other way of, any other sort of a road, you speak about an all-weather gravelled road, is there any other road between them?

A Well, there is a very poor graded road running from the Imperial refinery that one could wiggle around and get over to our plant, but you cannot rely on that kind of road when there is much snow on the ground or any rain at all.

Q We will eliminate that then. If you had a tank of crude at the Imperial Oil refinery and you wanted to get it to your refinery, you would go.......

A Well, if it was dry weather with the mud road, where we didn't have to consider the mud or snow, we would have to come in from the Imperial refinery to the overhead bridge at the stockyards and then over to Ninth Avenue and then up to the Cushing Bridge and then on the highway right on up there.

Q How many miles?

A About five miles, I think.

Q Now, if you had to consider, if you wanted to go every day and in all kinds of weather, how many miles would you have to travel?

A Well, that would depend on how many trips were made, you mean if you had to........

Q THE CHAIRMAN: Supposing it was very muddy and you could not use bad roads, and you had to travel on good roads, how many miles would you have to travel in your trip from the Imperial refinery to yours?

A About five miles.

Q MR. FRAWLEY: About five miles on the good highway?

A Yes, so far as the Imperial to the Stockyards bridge is not considered a very good road, but it is an all-weather road.

Q From the Imperial refinery to your refinery, using a road that you can absolutely depend upon three hundred and sixty-five days of the year, how many miles?

A About five miles.

Q Five miles, all right. Now, there are no bad roads in there at all......

Q THE CHAIRMAN: And if it is lovely weather and you can take roads that give you a short-cut, how far?

A I am not sure how far that would be because I have never went, but I would say roughly, you would cut off about two miles, I think.

Q MR. FRAWLEY: Now, then, by railway, there is a siding near your plant?

A Yes.

Q And do you know, is there any switching in connection with it to get a car of crude from the Imperial to your refinery?

[illegible] ...sider, if [illegible] d to go [illegible] day and in all kinds of weather, [illegible] miles would [illegible] have to travel?

A. Well, that would depend on how [illegible] things were going, I mean if you had to......

MR. CHAIRMAN: Suppose it was very muddy and you could not use bad roads, and you had to travel on good roads, how many miles [illegible] you have to travel in your trip from the Imperial [illegible] to yours?

A. About five miles.

MR. [illegible]: About five miles on the good highway?

A. Yes, [illegible] Imperial [illegible] the [illegible] bridge [illegible] very good road, but it is [illegible] road.

Q. [illegible] delivery [illegible] using a [illegible] depend upon three hundred and sixty-five days of the year, how many miles?

A. About five miles.

Q. Five miles, all right. Now, there are no bad roads in [illegible]

Q. [illegible]: And if it is lovely weather [illegible] good roads that give you a short-cut, how [illegible]

A. I am not sure how far that would be because I have not [illegible] but I would say roughly, [illegible] cut off about two miles, I think.

Q. [illegible]

A. Yes.

Q. [illegible]

A Yes, we have trackage there that we can use for unloading tank cars or loading cars.

Q C. N. R. or C. P. R.?

A C. N. R.

Q Has the Imperial refinery got C. N. R. trackage?

A Yes.

Q Do you know what the distance is in miles, if that matters?

A No, it practically runs straight, that is after they would switch over from the Imperial yard they could run straight north as a crow flies to our plant.

Q So it would be about a couple of miles?

A I think so.

Q Now, then, that is the lay-out of your plant. Now, did you operate that plant in 1938?

A Yes.

Q And what kind of crude did you use?

A We ran Turner Valley crude.

Q And from what, what Turner Valley crude?

A Well, we got our crude from Becker.

Q Do you know where it came from, do you know from what well he has been getting crude?

A I think he operates some of his own wells and he has been buying crude besides.

Q You do not know out of what well the crude came that you used ~~in~~ your plant out there?

A I think it came from more than one well.

Q Do you know the name of the well?

A Well, I am not sure of the name of Becker's well.

Q Becker would have to tell us that?

A Yes.

Q I understood you to say it came from the National No. 1, Mr. Munro?

A Well, I think there is some of it undoubtedly comes from

the National No. 1 well.

Q All right, did you buy any crude in 1938 from any other person except Becker?

A We bought some from the Moose Dome Oil Company.

Q Did you buy any from the National No. 1 yourself?

A No, sir.

Q Not any at all?

A Oh, we might have bought 500 barrels from National 1, the first 500 barrels, I am not sure whether that came from the National, I think that was from the National 1 products, but I am not sure.

Q That was trucked up from the well to your plant?

A Yes.

Q And what you bought from Becker, how did you get it to your plant?

A It was trucked from there up.

Q About how many miles, do you know?

A No, I do not know.

Q Do you know what it would cost to you?

A Yes, about 27¢ a barrel.

Q And you paid Becker the field price, did you?

A Yes.

Q The posted, the Imperial Oil's posted field price for that gravity you paid Becker?

A Yes.

Q And you yourself assumed the expense of about 27¢ on trucking it in?

A Yes.

Q Any deduction of any kind from the field price or any addition to the field price?

A No, it was just the field price we paid straight through.

Q And you looked after your own trucks?

A Yes.

Q Now, did you make any effort at all to purchase crude from the Imperial Oil in East Calgary?

A Yes.

Q What did you do?

A Well, we, at the time the conservation was sitting, they figured on, it looked as though we were going not to be able to get our supply of crude which we would need and we got in touch with the, first the Royalite Oil Company and they referred us to the Imperial Oil Company , and we 'phoned them and they, we 'phoned them two or three times, but we couldn't get a hold of Mr. Moore and finally they asked us what it was we wanted and we told them that we wanted to know if we could buy crude from them, either in Turner Valley or the Imperial refinery, and haul it from there over to our plant.

Q By tank truck?

A Yes.

Q And what did they say?

A And they said they would 'phone us back on that; well, it went on for a few days and they 'phoned back and said that they could not, they did not want to load tank trucks, that they had spoken to Mr. Moore about it.

Q Now, you say that you also have been using some Moose Dome crude?

A Yes.

Q THE CHAIRMAN: When was that conversation with the Imperial man?

A Well, I am not sure of the exact date, sir, but it was, within a few weeks of the exact date, but it was about when this Conservation Board was sitting, that is;......

MR. FRAWLEY: Do you know what month?

A I believe the Conservation had come into effect at that time.

Q Now, wait until we can get it down, it was in the year 1938?

A Yes.

Q In the spring or summer?

A In the fall.

Q Last year?

A Yes.

Q In the fall of 1938?

A Yes.

Q Last fall?

A Yes.

Q The month you do not know, September, October or November, have you any way of fixing that, if you went to your office, so that you could be a little more exact about it?

A No, only we, I can fix it, that is, it would just be the time, and that would be at the time the Conservation Board set the rate of flow from each of the wells, I think that was about.....

Q That was the 2nd of September last?

A About that, I think, somewhere about there.

(Page 3603 follows.)

Q Now then I just want you to tell the Commission what you are doing with Moose Dome crude, how are you getting that?

A We are hauling it by tank truck.

Q Where is the Moose Dome well?

A It is West of Calgary here, out near Bragg Creek.

Q About how many miles?

A I am not sure of the mileage. We hire all our trucking. I have never been out to that well so I would not say just exactly. We have not hauled a good deal from that.

Q What does it cost you to haul per barrel?

A I believe it is 40 cents from that well. I am not just sure on the exact figure on that.

Q Why do you go to the expense of bringing in crude which costs you 40 cents to haul?

A Well it is supposed to have a little more gasoline in it than the Turner Valley crude that we have run.

Q Has it? You say it is supposed to have. You have run them both?

A Yes, it has a little more gasoline.

Q Enough to make up the difference between 27 cents and 40 cents a barrel?

A As far as the gasoline, it has more gasoline, but not as much fuel oil as the Turner Valley. It has more gasoline or diesel fuel.

Q A particular market. If you had any chance to get either of these crudes which would you use?

A I do not think we will use very much more Moose Dome crude. I think we will arrange to take Turner Valley crude if we can get enough of it.

ø
J. L. Munro.

Q That comes to 1939. What is your program for 1939 as to the kind of crude you are going to try to get?

A That depends on what is available.

Q It depends on what is available?

A Yes sir.

Q MR. COMMISSIONER LIPSETT: Before you pass from that, is there any difference between the Moose Dome field price and the Turner Valley field price which might absorb part of that difference?

Q MR. FRAWLEY: Is there a posted field price at Moose Dome?

A No sir, I do not think there is. There is just one well and they set the price what they expect to get out of it.

Q You make a private contract with those people and you pay what per barrel, or you have been paying what per barrel?

A I am not sure of that, Mr. Frawley. I can get that information. I would have to get in touch with the office first.

Q Do you know what the A.P.I. gravity is?

A It is supposed to be about 48. It runs between 47 and 48 gravity.

Q Do you have any difficulty with the sulphur content of that?

A Yes, there is more sulphur in that than there is in the Turner Valley crude.

Q You will get us that price after lunch?

A Yes.

Q This is just a small movement is it not?

A Yes.

Q How many barrels have you been using?
A I believe it is 1500 barrels we have got from them.
Q Are you aware of anybody else taking Moose Dome crude?
A I understand some Saskatchewan Refinery has taken some Moose Dome crude.
Q Because of its higher gasoline content?
A Yes, I presume that was the reason.
Q How about 1939? Have you made any overtures at all to the Imperial or the Royalite of the British American or any other people?
A No sir, we have not at present. We are in hopes that this Board will do something that will enable us to get crude.
Q This Commission?
A Yes.
Q MR. NOLAN: Have you taken your problem to the Conservation Board?
A No sir.
Q Cannot you make a nomination for crude through that Board?
A I do not see how we can.
Q Have you tried?
A No sir.
Q All right.
Q MR. FRAWLEY: If you make a nomination the Conservation Board is not engaged in the business of selling crude to you as far as you know?
A Not that I know of.
Q Or to provide storage facilities or loading facilities

for you to take the crude away from anybody's refinery?

A Not that I know of.

Q As Mr. Nolan suggests you may - and I agree with him - I suggest to you you may nominate to the Board that you want 100 barrels of crude a month or 200 or 500. I admit that. You can do that. But I suppose you have to find somebody who will sell you the crude though?

A Yes.

Q Yes, I would think so.

Q MR. COMMISSIONER LIPSETT: How are you situation in connection with the pipe line?

A There is no pipe line around, at least I do not think there is any pipe line running North or East of the Imperial Refinery. We are sitting really North-East of the Imperial Refinery.

Q As far as you are concerned, if you get on the pipe line it would have to be by a gathering line, or the converse of that, a delivery line of some sort?

A If they were to run a pipe line direct to our plant it could be easily enough done, just the same as this pipe line runs over to the Lion and the Bell and the Regal Refineries. It could be run over to our plant just the same way as far as a trunk line or branch from the main line, I believe it could run over there, if they want to.

Q What would you say is that, two or three miles is it? As the crow flies?

A Yes, about two miles as the crow flies.

Q It would have to go into the Imperial Refinery first, would it?

A They could go around the Imperial Refinery. I believe they could go around the South side and up the East side of the Imperial property with the main line if they did not want to go through the Imperial property. That is I am presuming that the pipe line comes into the Imperial Refinery from the South and East, the nearest point to the Valley. I do not know whether it does or not. I am just presuming that is where it would come.

Q What capacity have you got if you could get the crude oil? What is the capacity of your refinery?

A Our plant is built for 500 barrels a day, to handle 500 barrels.

Q Would you be able to give the pipe line company that much business, 500 barrels a day?

A Not at present. You see we just finished our refinery last Spring, that is the construction of the refinery.

Q What is it that you are suggesting to the Commission that is required in the interests of your refinery?

A Well we would like to have crude available so that we could get our crude either by tank truck in the Valley or get it from the Royalite pipe line. I do not see why the Royalite pipe line could not take - if there is supposed to be 1000 pounds pressure close to the Imperial Refinery, where it comes into the Bow Valley there, as was expressed yesterday, I do not see why a small station could not be put up there to supply independents with crude right there, if they do not want to go into the Imperial property, without even putting in a pumping station, because if there is 1000 pounds pressure that is a whole lot

more than it needs to load trucks.

Q It seems to me it would be desirable that you give us exactly what you think should be done for you and what your submission is. What is required in your case? In the first place down at the Valley does the Conservation Board, have they got any duty or authority to see that you get crude oil there?

A I do not know what authority they have, but the wells, I understand, are all pro-rated alike. That is what we understand is, one well is not allowed to produce 500 barrels per day while the rest of the wells are shut in to 100 barrels a day. Well at the present time or even - well practically all the winter the allowable of, we will say, of the few independent wells - I understand there are one or two or maybe three, we figured there was about three independent wells who could sell crude to whom they liked.

Q Yes?

A And these three wells are pro-rated to such an extent that they will not be able to supply all the independent refineries in the Province. So I do not see how we can expect to get our crude. We are not in a position where we can go to a well and contract for so much, so many barrels a day because our sales - what we purchase depends on what we sell. We cannot just say our plant is capable of handling 500 barrels a day and we can take that much, because our sales have to be considered. Sometimes, at different times of the year, our sales are not going to be anywhere near 500 barrels, as at present. But I guess that is what has been done in the States and other oil fields that they have compelled

J. L. Munro.

them to tie up to contracts which has caused many refineries to go broke, by loading the crude on them and they could not dispose of the finished product.

Q You mean the wells down in the Valley are so much tied up that there is no chance for an independent refinery like yours to get a supply of crude, is that it?

A Not under the present pro-ration Act, that is if these wells are going to be pro-rated the way they are, I do not see how an independent could get the crude from the independent wells that are not contracted to the Imperial or the British American.

Q But under present conditions there is such a control over wells in the Valley by the larger companies, that under the present conditions you cannot get crude. You are speaking for the independents?

A We could probably get crude at the present time. I do not know how much crude there is available in the Valley at the present time. But we are just the same as the rest of these refineries when March and April comes along naturally we will be running probably at full capacity for a few weeks and during that few weeks or a month we will be unable to get the crude, and the others will be in the same boat, I presume, unless they bring in crude from Montana or the Imperial gets big hearted and lets us in on some of theirs.

Q In your present position you cannot get crude from the Royalite or the Imperial for your tank trucks?

A At that time we did not suggest loading it to tank cars because a short haul like that the freight from the Imperial Refinery over to our station would run

the cost of the crude too high. We would be further ahead hauling by truck from Turner Valley, If we had to pay 15 cents a barrel pipe line charges and 5 cents a barrel loading charges and I do not know how much a barrel the freight rate would be from the Imperial Refinery over to our refinery, and unloading the crude and taking the loss of unloading the tank car, it would run our cost far more than if we go direct to the Valley with the truck.

THE CHAIRMAN: Have you got that list?

MR. FRAWLEY: Yes, I have the list in front of me.

Q According to the list filed here, yesterday, Exhibit "128" of the 62 oil wells in the Turner Valley there is only one that is not contracted or tied up by some other arrangement not amounting to a contract, only one that is National Number 1. The other wells are tied up by contract or other arrangements to Lion Oils Limited, Gas & Oil Products, British American and the Royalite, or its associates. Now I want to clear up this question about the Becker wells. You say you understood some of your oil last year came from the Becker wells.

THE CHAIRMAN: Now just a moment. You put that to him. You might wait and let us have some answer.

Q Have you been able to get any other oil from any other well? You speak as if you could go down there and get it if it was not for the pro-ration. From where or from whom are you going to get it?

A The only place we have been able to get it is from Becker, who is, I guess, handling some National 1 crude, and I understand that he has several wells, that he is handling crude from several other wells. I do not know just for sure anything about Becker's business except we were able to buy our crude from him.

Q MR. FRAWLEY: Just by way of anticipating Becker's evidence, to keep the record straight, Mr. Becker, as I understand it, had some wells which have now gone out of the category of crude wells and have become gas wells, and that is why none of Mr. Becker's wells appear on this list. Do you know that?

A I do not know whether they have or not.

Q You do not know that. You do not know whether the product that comes from Mr. Becker's wells now is crude or naphtha?

A No, I do not know about Becker's wells. All I know is we could get this crude from Mr. Becker, which runs fairly uniform.

MR. FRAWLEY: What I think is required is short statements from one of the officials of the Conservation Board or from Mr. Cottle, a short statement of what this arrangement of nomination is. Perhaps for the information of Mr. Commissioner Lipsett, might I say it is a fact that Mr. Munro could nominate to the Board for his crude requirements, regardless of his inability, as appears from this Exhibit, to go to the Valley and get any oil. He can nominate and the Conservation Board will add

his 200 barrels a day, to the Royalite and the British American and everybody else's nomination. That means then that the Valley as a whole must produce Mr. Munro's crude oil. But that is where it stops. He still has to find a vendor. It is just as simple as that. The Board does not have anything to do with finding a vendor for Mr. Munro. They say."We will see the Valley produces enough oil to meet your requirements."

THE CHAIRMAN: What about all these new wells. We have not heard whether or not they are tied up by contract. If it is of interest to hear from these independent refiners at all about their troubles, and not being able to get crude oil. Now we have heard to date as to the wells now producing. We have been told of a great program going to involve thousands of dollars of expenditure just to prepare for receiving it. Perhaps the Turner Valley will be full of oil that is free, or perhaps no more will be free. If it is of any importance at all to these refiners we should hear the whole thing.

MR. FRAWLEY: Insofar as we can go - I do not know but I would think that some of the projected wells have not signed up any production contracts yet. On the other hand some may have, some which have just spudded in. But the two main purchasers could tell us about that, and what we cannot find out we cannot find out. But I think your observation is very pertinent.

THE CHAIRMAN: We can not be caring for Mr. Munro's refinery if there is all kinds of oil available for him from wells that are now being drilled.

MR.COMMISSIONER LIPSETT: I think we want a statement, Mr. Frawley, from both sides, both from the Turner Valley situation as to whether there is discrimination against him there that might or might now be unfair, and the same at this Calgary end. For instance if this capital outlay scheme that is put in, calling here for the building of a new tank, chiefly for the benefit of the Imperial, out of this rate, and it is quite a proper subject for us to inquire into why similar facilities - if it is going to be a public utility - should not be provided for other refineries.

MR. FRAWLEY: Mr. Coultis left himself open. He said the situation might develop where other facilities might have to be provided for, and perhaps just this kihd of thing. He talks of a little tankage outside the Imperial yard.

THE CHAIRMAN: The situation is at the moment, I suppose it can be said the Imperial is quite fair in keeping this oil that it has contracted for, and it is under no obligation to deliver to its competitors.

MR. FRAWLEY: I accept that.

MR. NOLAN: And we must also consider the point of view of the producer, of whom little has been said before this Commission, who has 500 barrels a day production and wants to sell it and all of it.

THE CHAIRMAN: And be sure he is going to get a buyer. There is that to be said too.

MR. FRAWLEY: It is only necessary to make a contract with the Imperial......

MR. NOLAN: Never mind the Imperial. Take someone else.

MR. HARVIE: B.A., is much better.

MR. NOLAN: Yes, with the B.A.

THE CHAIRMAN: Or perhaps with Mr. Plotkins or Mr. Munro.

MR NOLAN: Yes, with Mr. Munro. Mr. Munro has a capacity of 500 barrels a day.

MR. FRAWLEY: Up and down.

MR. NOLAN: Yes, well that is Mr. Munro's problem, and he puts his finger on it himself.

Q THE CHAIRMAN: Did it occur to you when you were putting your capital investment into your refinery that you would need to find oil somewhere to refine?

A We felt if we could not get Turner Valley crude we would get crude from Montana.

Q You were going to import it?

A Yes, at that time when we started building the refinery there was not the oil boom there has been this last two years. We started our refinery a year ago last June.

Q Yes?

A At that time there was not very much doing in Turner Valley as far as development work was concerned.

Q Can you still bring it in from Montana?

A Yes sir.

Q And refine it and at a profit to yourself?

A We have not went into that very thoroughly just what the profit would be. We have had offers of Montana

crude at far below Turner Valley field prices.

Q So that it might be now quite profitable for you to use Montana crude?

A Well that all depends on the gravity of the crude, and what its recovery is.

Q You do not know about that?

A Well we went into that last summer. There was an outfit could supply us with all the crude we wanted from Montana and we went into it, but I do not remember just exactly how it figured out. But we did not bother with Montana, There was not a great deal of difference at that time between Montana and Turner Valley, at the prices we were offered for the Montana crude.

Q MR. COMMISSIONER LIPSETT: I suppose Mr. Munro, if you could get the native product you would prefer it.

A The which?

Q The Turner Valley crude?

A Yes.

Q Instead of having to go into Montana to buy it?

A Yes sir.

Q I just mention that in connection with this thing of making a contract. I think one of the things we have to consider is as to the facilities, the adequacy or efficiency of the pipe line facilities, and whether the present ones result in unwarranted control.

MR. NOLAN: And you are concerned, Sir, if I may say so, with what the producer says in the matter and what he wants to do with the product which by the exercise of his own brains and the expenditure of his own money he has reduced into possession.

MR. COMMISSIONER LIPSETT: Except that, Mr. Nolan. is there not this point that if the facilities are such that it costs this operator here 27 cents to go to the refinery for crude that by arrangement with the Royalite Company the Imperial can get for 15 cents, is there not discrimination there which would prevent this man paying the field price. He would have to reduce his field price in Turner Valley to make up the difference between the 15 cents and the 27 cents.

MR. NOLAN: He is saying, sir, he brings it in from Montana or from the Valley and it costs him 27 cents.

MR. COMMISSIONER LIPSETT: Or if he does not get the facilities from this pipe line such as would enable him to get it for 15 cents to his refinery, he would be at that disadvantage.

MR. NOLAN: Yes.

MR. COMMISSIONER LIPSETT: As against the Imperial Oil?

MR. NOLAN: Yes.

MR. COMMISSIONER LIPSETT: To that extent he would be prevented from paying the fixed field price for crude oil in Turner Valley.

MR. NOLAN: We have to remember that the pipe line was in a certain position, when Mr. Munro chose to build his refinery.

MR. COMMISSIONER LIPSETT: Does not that apply equally to the Turner Valley and to the new well that is drilled there, and we are asked to put or

to allow a rate that will allow.......

MR. NOLAN: We will have to make it clear by evidence as to whether or not it is the pipe line practice in the States for the pipe line company to deliver oil to the refineries, wherever they may be situated, at the terminal end of the system. Personally I am not clear about that yet. I know what they do in gathering. They go right out as far as there is oil and bring it in. That is perfectly clear. But what happens at the terminal end is not quite clear.

THE CHAIRMAN: It seems reasonable, without knowing anything about it, and on which I would welcome evidence -- it seems clear that the transporter of oil is not only the carrier to carry it but will deliver it. I mean without anything more, one would expect that. Any other carrier would make delivery.

MR. NOLAN: I do not think we have really explored that.

THE CHAIRMAN: Perhaps the practice may be opposite.

MR. FRAWLEY: We have not explored that, and as to the American practice, I do not think that the American practice must control our deliberations.

THE CHAIRMAN: It does not control it. It may be an aid in coming to a conclusion.

MR. NOLAN: Just to show what other people do. We do not have to follow that.

MR. FRAWLEY: We have a situation here - well I do not know that I should say anything that might perhaps be more properly said later, in summing up.

But we have a situation here where the natural resources of the people of Alberta are being developed and I am not ascribing anything improper to the Imperial for getting these wells tied up.

MR. NOLAN: Do not say tied up, for entering into contracts.

MR. FRAWLEY: Well, yes, for entering into contracts, and it is good business for the producers to find somebody who will take their oil and all of it and every day, and so on. That is a situation we must face. But it seems to me that somewhere in between that and the spectacle of a man not having any oil at all for his refinery - perhaps in consequence of his own ill judgment.....

THE CHAIRMAN: Whether he should have built the refinery without having any oil supply?

MR. FRAWLEY: He perhaps should not have built his refinery at all, but it does seem to me there should be some way of working it out, when so much more is being produced or is capable of being produced than can be delivered at all. Then one would think that the Conservation Board - as I said before the Conservation Board is quite prepared to see that the Valley produces Mr. Munro's oil, and everybody else's oil.

THE CHAIRMAN: If Mr. Munro can get the oil, people to sell him the oil, or people who are free to sell him the oil.

MR. FRAWLEY: Yes. He has to have the people who will sell him the oil. So all the Conservation orders in the world won't get the oil

for Mr. Munro unless he can induce people to enter into a contract to sell some to him.

THE CHAIRMAN: It seems to have crept in as though the Conservation Board has done something to prevent it. The fact is Mr. Munro has not taken the precaution of getting anyone to sell, or contract with him to sell him oil.

MR. FRAWLEY: We may have to say definitely the independent refinery who has not gone down and contracted for a supply of oil will just have to close his refinery up. That is maybe a situation that we must be prepared to face.

THE CHAIRMAN: The Government may say there should be no such thing as contractual rights in Turner Valley. We do not know. We have to find the facts.

M . HARVIE: I was going to ask Mr. Munro one question on that point.

THE CHAIRMAN: Well we will hear that at 2 o'clock.

(At this stage the Hearing was adjourned until 2 P.M.)

....

JOHN L. MUNRO, having been re-called, examined by Mr. Frawley said:

Q I want to ask Mr. Munro one question, Mr. Munro, you are still under oath?

A Yes.

Q There was some confusion this morning when you were giving your evidence as to what crude you were getting, from what well you were getting crude last year, you told us this morning you had been buying from Becker and you understood that Becker had two or three or four wells as you said this morning?

A Yes.

Q Now are you aware that further inquiries have now been made, you know further inquiries have been made?

A Yes.

Q And you are now able to tell us from what well you were getting your crude last summer?

A From National Pete 1.

MR. FRAWLEY: That is all.

Q MR. NOLAN: Mr. Munro was also going to be good enough to find out for us the price of the Moose Dome crude, perhaps you have not had time to do that?

A Yes, I have, the Moose Dome crude is $1.35 per barrel at the well and the trucking cost to us of that in here is .59½ cents a barrel, about $1.94½ at the plant.

Q THE CHAIRMAN: That is hiring your trucking done?

A Yes.

Q Moose Dome is situated where?

A I have never been out there but I believe it is on what they call the Bragg Creek road.

Q It is not within that area which we have been speaking of as Turner Valley?

A No, I do not think it is.

Q Any other wells in the Moose Dome?

A Well they drilled two wells, this is their second well I understand that they drilled.

Q The one company?

A Yes.

Q Any other company drilling?

A I believe it is the same, it might be a subsidiary of the same company but I believe it is the same company.

MR. HARVIE: It is the same company.

THE CHAIRMAN: Yes. Mr. Harvie, you were going to ask some questions.

Q MR. HARVIE: Just in that connection, Mr. Munro, in the connection with the purchase of the Moose oil, do you know how that would compare in price for the equivalent gravity of Turner Valley, have you figured it out?

A That is comparing the 48 gravity Turner Valley Crude with---

Q Yes.

A No I have not.

Q THE CHAIRMAN: With what?

A The 48 Gravity Turner Valley Crude with the 48 Gravity Moose-Dome Crude, I do not believe there is any.

Q MR. HARVIE: The evidence is, Mr. Munro, that the crude bought from MooseDome is a 48 gravity and I think Mr. Coultis' evidence is that the average which is sold in Calgary from Turner Valley is 43 and 44.

THE CHAIRMAN: He is not saying that now, is he, what do you say the Moose Dome is?

A No, we have not bought any of the 4F and 44 and I have never

heard of them having any such low as that gravity.

Q MR. HARVIE: Where?

A At the Moose Dome, nothing below about 47, we have got some running between 47 and 48 gravity but it runs about 47.5 or 47.6.

Q MR. HARVIE: I think that is correct, I do not think there is any low gravity but my point is this, that the price of Turner Valley Crude is according to the gravity, the evidence before the Commission is that the price goes up 2¢ for each degree of gravity from 38 to approximately 60 gravity and I am going to suggest that the equivalent price so far as gravity is concerned of Turner Valley Oil of 48 gravity, which would be the same gravity as the Moose Dome, would be $1.30, whereas you are paying $1.35?

A Yes.

Q And if I understand you correctly your hauling costs from Turner Valley are .28 cents?

A No, 59½.

Q From Turner Valley?

A Oh from Turner Valley, yes, about 27 cents.

Q And from Moose Dome .59½ cents?

A Yes.

Q In other words per barrel the Moose oil is costing you considerably more laid down at your plant than Turner Valley would?

A I am not sure what the field price of 48 gravity Turner Valley is.

Q Well take my figure of $1.30, it would at the $1.30 laid down price, cost you considerably more?

A About $1.57.

Q It would be \$1.30 plus .59½ would it not?

A No, it doesn't cost us that much to haul from Turner Valley?

Q I didn't make myself clear, what I am trying to do is to find the price laid down at your refinery East of Calgary of Moose oil crude?

A \$1.94½ a barrel.

Q Now taking my price of \$1.30 for the 48 gravity crude from Turner Valley and your hauling cost of 28 cents.

MAJOR LIPSETT: 27 cents.

Q MR. HARVIE: 27 or 28?

A 27 cents.

Q 27 cents, that would be what?

A \$1.57 a barrel.

Q So that there is a difference between \$1.57 and \$1.94½, that is correct?

A Yes.

Q May I ask that, when you bought or arranged to buy the Moose oil crude was it because you had no other crude available or because you wanted it?

A No. At that particular time we wanted the Moose Dome crude because of it being a little higher gasoline content than the Turner Valley.

Q And you were willing to pay the difference?

A Yes.

Q Mr. Munro, as I remembered your statement this morning you erected your refinery when?

A We completed the plant in March, 1938.

Q Approximately a year ago?

A Yes.

Q At the time when you conceived the plant and decided to build

and did build, what sources of crude had you in mind?

A Well we felt that if Turner Valley was available we would run that but if it was not we would, there was a fairly high gravity Montana crude that we figured on running, that is we had not definitely decided to but it was available.

Q And that you would be able to go into the business with Montana crude?

A Yes.

Q What crude have you been using chiefly?

A Mostly Turner Valley.

Q Have you brought any in from Montana?

A Practically all Turner Valley except this Moose Dome.

Q Was there any reason why you located your plant East of Calgary?

A So that if we were cut off from Turner Valley we could bring our crude in by tank car from California if necessary. We could not get a location in the City, we had to go outside the City limits.

Q You Know Mr. Plotkins refinery the Lion?

A Yes.

Q I believe the evidence is that that is outside the City?

A I do not know whether it is outside or not.

Q The evidence before us is that it is outside the City.

A Yes.

Q Anyway you did not think it advisable to get on the route of the pipeline from Turner Valley?

A No, I didn't think it would be advisable to do that or we didn't.

Q Did you find that you were more available possibly and had some advantage in marketing your refined products?

A Yes, that was also one of the reasons being both on the railway and on the highway.

Q That location which you chose was chosen largely to give you a preference in markets?

A In markets and in bringing in our crude.

Q So if you got, we will say an equal delivery of crude to your refinery where located, you would probably be getting an advantage?

A A which?

Q If you got crude from Turner Valley delivered to you by say the existing pipeline or an extension of it to your present location, at the same price as we will say the Imperial is getting or Mr. Plotkins, you would get some advantage in marketing?

A If we were----

Q If you were located for your market as you are?

A Let me get that straight, if we were getting the Turner Valley crude for the same price as the Imperial were?

Q Yes.

A Do you mean would we be satisfied?

Q I will put it that way to start with, would you be satisfied?

A Yes I think we should be entitled to get crude at the same price as the Imperial does.

Q You do not think you should get it any cheaper than they do?

A No, I do not feel that any company should get crude below the field price or have to be compelled to pay more than the field price.

Q And whatever the reason is, the Imperial is on the pipeline and in the City of Calgary, the Imperial Refinery is on the pipeline, the location of the refinery?

A Yes.

Q And they are in the City of Calgary?

A Yes, they are in the City.

Q And you said you couldn't come within the City of Calgary?

A Well we, the City gave us a permit to build our refinery down at our Westend plant here and then after we commenced to build they refused to let us go further.

Q MR. FRAWLEY: Mr. Harvie knows how hard it is to get into the City.

Q MR. HARVIE: There is no trouble getting in, it is to stay in, but it is in connection with the matter of costs, taxes and so on more than anything else, but you have just told me, Mr. Munro, that you have certain market advantages in your present location?

A Yes, we have advantages there.

Q Now that means that you could market maybe somewhat cheaper than you could if you were in the City of Calgary?

A No, it would not make any difference so far as the marketing of it because the majority of customers that come up within a short distance like that of Calgary, they do not mind coming in the rest of the way, there is no advantage to them, they come, as a rule they come in for other things besides just fuel.

Q Explain to me what your distribution system is, what your marketing system is, do you market entirely just to the transient trade that comes to your refinery?

A Well business never does just come to you, you have to go out and get it.

Q Do you deliver from your refinery?

A Yes, we have done that.

Q Well is it your usual practice?

A Yes, we do that to some extent.

Q Just give me some idea of where your market might be.

Q THE CHAIRMAN: Do you run your own trucks?

A We hire all our trucks.

Q MR. HARVIE: Both for deliveries and for hauling crude oil?

A Yes.

Q Where, you are East of the City of Calgary, is not your market, I will put it this way, East of you again or is it back to the City of Calgary?

A No, most of our market is East and North.

Q East and North?

A Yes.

Q In other words you are closer to your present market than you would be if you were in the City of Calgary?

A Well not necessarily because we have some business from the North which it is out of the way to be up there, than it is if they were coming straight into the City.

Q Why does that come to you then?

A Well I guess the same reason that they come to the Imperial Oil and the British American.

Q You go out and get it?

A That is so.

Q I will just leave that. Now in connection with the obtaining of Turner Valley Crude, I understand you bought the majority from the National Pete?

A It came from the National Pete well, yes.

Q You said there was possibly 500 barrels otherwise. Well I will put my question this way, that generally speaking all your crude which you put through your refinery came from the National Pete?

A Yes.

Q And did you buy directly from the National Pete or from some other source?

A No, we buy our crude through Becker.

Q And who is Becker?

A Well he is in the production, he produces crude I believe and he has a refinery down there.

Q Down where?

A In Turner Valley.

Q A refinery in Turner Valley?

A Yes.

Q Yes?

A And he also markets his goods the same as the rest of us do I understand.

Q Have you ever bought anything directly from the National Pete Well?

A We bought about 500 barrels directly from the National Pete.

Q Why don't you buy all from the National Pete rather than through Mr. Becker?

A Well it is handier to buy it from Becker.

Q It is handier?

A Yes.

Q And you do not pay any more?

A No.

Q In other words, do you know whether or not Mr. Becker makes a profit on what he sells to you?

A I do not think that he makes any profit.

Q He handles it free of charge?

A Yes.

Q And you buy at the same time, from him, at his plant, at the same price as you could buy from the National Pete?

A Yes, at the same, we pay him the same price as we would if we went direct.

Q How far apart are the two plants, the National Pete Well and the Becker Plant?

A I believe it is about a mile, but I would not be sure.

Q Anyway there would be some cost to Mr. Becker in transporting it?

A Well there would probably be no cost to Mr. Becker and there might be at times. Our truck went to two or three different places to get the crude. I do not know whether it was convenient for them to have it that way but I do not think Becker was put to any expense in the handling.

Q In other words, do I understand that possibly Mr. Becker would give you an order to go down to the National Pete tank and take delivery from there?

A Yes, on most occasions.

Q So you did not actually take delivery of the oil from his refinery site?

A No, there may have been a few loads that came direct from there, I do not know how that was handled. I was not down at the well very often.

Q But in any event you buy through Becker at the same cost so far as you know as Becker pays the National Pete?

A Yes.

Q Have you been able to get at all times all the crude you wanted from him?

A No, at the time I mentioned this morning that we couldn't, the Imperial, didn't want to sell us crude was, at that time, the National Pete Well was then unable to produce all the, that they had orders for for them to sell.

Q Was that during the peak season?

A Yes.

Q And your requirements at that time were higher than they had been maybe at other periods of the year?

A Yes, they were a little higher at that time.

Q In other words at all times other than the peak season, you have been able to get all the crude you want?

A Yes, up until this Fall, we have not needed a great deal through the Winter months.

Q And you are familiar enough with the operations of the Conservation Act and the general operations in Turner Valley to know that possibly at the peak of any season there is no immediate, not immediately sufficient to meet requirements?

A No, I do not think it would ever be able to handle enough for the independents this coming season and maybe you misunderstood me this morning, your Honour, when I made reference to the Conservation Board, that they had cut us off the crude, and I did not mean it that way, what I meant was that owing to the fact that the Conservation Board had cut down the allowables to all the wells it put the National Pete into the position where they could not produce sufficient oil to supply all their customers. I didn't mean that the Conservation Board had cut us off.

Q You know at periods throughout the year, that the National Pete has had oil on hand that it could not sell?

A I do not know anything about their business at all.

Q In other words, you do not know whether they had over certain periods accumulated oil that they had to either, with the result they either had to sell it, take advantage of whatever market was available or accumulate storage?

A I never heard of them ever selling their crude at reduced prices in order to get rid of it. At least we were never given an opportunity to buy any.

Q Do you know if they have ever had to accumulate storage?

A The National Pete?

Q Yes.

A Well I imagine they would have to accumulate a little all the time. They could not help but put up some storage to handle their production.

Q Have you ever heard at any time that they had to close in their wells on account of not having any market or any storage available?

A No, I have not heard of that.

Q Mr. Munro, did you ever ask or make inquiries from the British American Oil Company as to whether it would ever sell you any crude oil?

A At the time we phoned the Imperial we also phoned the British American.

Q Do you know whom you phoned?

A No sir, I cannot say who it was that we were talking to, it was also on naphtha, it was not only on crude but they also refused us on an earlier date when we tried to buy naphtha. We could not get naphtha either.

Q Well just on that, you know for some time past there has been a shortage of naphtha for all the refineries?

A There was supposed to have been, I do not know whether there was or not.

Q You found a shortage anyway?

A Well when we came to buy it we couldn't get it, I do not know whether it was a shortage or whether they did not want to sell

it to us.

Q You know that the field as a whole is producing only a small percentage to what it was some years ago?

A Yes, I guess it is.

Q THE CHAIRMAN: You say the British American refused to sell you crude as well as naphtha?

A Yes, both. In the first occasion it was naphtha that we wanted to buy from them and they would not sell us naphtha and when it came to the crude they said they had no facilities to give us delivery of crude so that we could take delivery of it.

Q MR. HARVIE: Now Mr. Munro, my information was, so there will be no misunderstanding about it, is that the British American was never asked by your company to sell it any crude. As to the naphtha I cannot speak, I did not ask, now did you make---

Q THE CHAIRMAN: You say that is not so?

A We did make, we did go to them, we phoned them to try and see what we could do in getting crude from the British American and also the Imperial Oil.

Q MR. HARVIE: Did you make those phone calls yourself?

A Yes.

Q And whom did you phone, do you know?

A Well on the British American, I do not remember who it was that I talked to and I cannot tell you who it was that I was talking to at the Imperial but I, when I phoned the Imperial it was---

Q We are not concerned with the Imperial, do you know what department of the British American you phoned?

A I cannot say that, but I believe it was the production department, if there is such a department. I undoubtedly looked it up and----

Q There is a production department, yes.

A Well that is, I probably phoned them and they probably turned me over to the other office, that is what I ran into with them.

Q Do you know when you did phone?

A At the same time that I phoned the Imperial Oil.

Q That would be the early part of September last year?

A Yes, about that time.

Q And just let me know now what the reply was that you got?

A From which company.

Q From the British American.

A Well they claimed they had no facilities for, or there were two or three reasons on the first occasion, now whether it was on the naphtha or the crude I would not be sure but on one occasion it had to go to Winnipeg first to get permission from Winnipeg. Now whether that was on crude or on naphtha I would not be sure which but it was going to run over quite a period of time anyway, I figured before we would get any reply, if we ever did get one.

Q THE CHAIRMAN: And the other reasons, you said there were a number of reasons, what are they all?

A A number of reasons that we did not---

Q That they gave you for not giving you or filling your order?

A The other one was that they did not have facilities to load our truck.

Q Yes, any others?

A No, I think that is all the reasons that we got from them.

Q MR. HARVIE: And so far as the naphtha is concerned they just did not have it, that was in effect the reply you got, for sale, anway?

A I would not say for certain what that was on the naphtha part of it.

Q But the answer was you were not able to buy any naphtha from them?

A No sir, we couldn't buy any naphtha.

Q And on the crude you say the reasons were first that they had to refer the matter to Winnipeg?

A It was either on the naphtha or the crude. I would not be sure, because I did not have much, at least I didn't figure we would have much chance of getting any from them anway but it had to run back and forth to Winnipeg or some other Eastern office and I do not know whether that was on the crude and naphtha both or whether it was just on the one.

Q The second, the other reason was that they did not have loading facilities?

A Yes.

Q And those are the only two reasons?

A I think that is all the reasons they gave.

MR. HARVIE: Thank you.

Q MR. FRAWLEY: Mr. Munro, just so that we have no misunderstanding about it, you told Mr. Harvie that you had bought from the Becker Company because it was handier. Now it strikes me as being not so handy at all but there was some reason, perhaps some private reason why you bought this from Becker rather than direct from the wells?

A Yes, there was a private reason, Mr. Frawley.

Q I do not want to find out your private business reason why you dealt with Becker but you didn't pay anything more for it than if you had dealt direct?

A No, we didn't pay any more. We had the choice of getting it

from whatever source we wished.

Q But you had some private reason for doing business with Becker?

A Yes.

Q And that is the main reason, not because it was any handier?

A No, that is the reason.

MR. FRAWLEY: All right.

MR. PLOTKINS: May I ask some questions. I want to bring out something which has been left unsaid in connection with the crude from Moose Dome?

THE CHAIRMAN: Mr. Plotkins, let us be clear, so far as it touches upon matters of which you have special knowledge and in which you have special interest. I do not want you to think that you are constituting yourself a second Commission Counsel. It is only to save time that I mention this now. Anything you want to ask about general matters you must communicate with Mr. Frawley, as all other people do, but if you have special knowledge now and a special interest with respect to this matter, it is perfectly proper you should, - so go ahead.

MR. PLOTKINS: That is what I mean.

THE CHAIRMAN: Quite so.

MR. PLOTKINS: You will see by the question.

THE CHAIRMAN: I have no doubt it will be quite proper.

Q MR. PLOTKINS: When you bought the Moose Dome and you paid a much bigger price you, no doubt, at that time investigated the relative values to your plant?

A No.

Q You weighed what you should get out of one as against the other?

A Yes.

Q Now how much, are you in a position to tell us the main reason

or at least I will put it in a different way, how much gasoline and how much other products did you get, in comparison with the Turner Valley crude, that would warrant that extra expense?

A I am not in a position right now to give those figures?

Q I suggest to you that the main reason you were able to pay such a big difference was because in the Moose Dome crude you recovered 85% gasoline and approximately 14% kerosene distillate with no fuel oil?

A You are mistaken on the amount of gasoline recovered.

Q I am mistaken?

A There is not that much.

Q Was there any fuel oil in that crude?

A Very little.

Q What would be the percentage?

A Not over 5 or 10% I do not think.

Q Not over 5 or 10, now is it 5 or is it 10, approximately, it cannot be 5 or 10?

A Well I do not remember exactly what it was but I knew at the time.

Q There was very little fuel oil?

A Very little.

Q In fact, is it not reasonable to say that you could sell the crude as it comes from the well as a distillate?

A Yes, it is possible.

Q It is clear?

A Yes.

Q You can see through it and it has a relatively small percentage of impurities?

A Yes.

Q And it is capable of being sold in competition with the regular distillate?

A Yes.

Q Sold on the market?

A Yes.

(Go to No. 3638)

Q So that you were in a position to pay that bigger price and still make a profit as comp red to Turner Valley crude?

A At that particular time we were pretty well stocked up. Our tanks was pretty well filled with fuel oil and we did not have room and we were not in a position to put up additional storage for fuel oil. We took that just as more of a ....

Q As a way out?

A Yes.

Q Now, we are getting to exactly what I think the Commission should know. When you refine the Turner Valley crude you have an accumulation of residue and other heavy oils, heavy distillates?

A Yes.

Q That re not easily saleable?

A Yes, sir.

Q And with limited capital you are not in a position to endlessly put up storage to accumulate that?

A No, you cannot keep on throwing up tanks.

Q So if you can find a crude such as the Moose Dome in sufficient quantities to supply your requirements you would not buy any Turner Valley, would you, in the main?

A It would depend entirely on the price we had to pay for it.

Q The price being in relation - the values being equal would you take Moose Dome or would you take Turner Valley crude?

A The same gravity, do you mean?

Q Yes?

A Being 48 gravity Turner Valley or 48 gravity, we will say, Moose Dome?

Q Yes, put it that way first?

[illegible]

[illegible]

[illegible]

[illegible] the Committee [illegible]

[illegible]

[illegible] found for [illegible]

[illegible]

[illegible]

A With the same gravity and the same amount of gasoline and kerosene and gas oil?

Q At the present time you know what you get out of Turner Valley. You get gasoline, kerosene, distillates and so so forth?

A Yes.

Q You know what you get out of Moose Dome?

A Yes.

Q You have run both so you are in a position to know. If you had an opportunity to purchase Moose Dome exclusively, I mean if you could buy enough of it at the same price, for the light gravity, would you buy Moose Dome or Turner Valley, having in mind you would have no problem of storage for fuel oil and so forth?

A I would prefer Moose Dome to Turner Valley, as far as the fuel oil content is concerned.

Q Would you be prepared to pay a premium?

A Well, I would have to go into that a little further before I said.

Q You would have to wait. How much crude oil of all kinds did your refinery purchase last year, do you know?

A It is supposed to have been two kinds but on two or three occasions there was a heavier crude.

Q But how much in barrels did you buy during 1938?

A I cannot say.

Q Have you any idea?

A No, I cannot say.

Q Was it 10 thousand or 20 thousand barrels? You must have some idea, you run the refinery yourself?

A I would not be in a position right now to say that.

Q You would not give us a reasonable estimate?

A I can get that information if it was necessary.

Q MR. COMMISSIONER LIPSETT: Mr. Munro, just one or two questions I want to ask you. As you know at the moment we are interested in the pipeline from Turner Valley to Calgary and the rate and whether the facilities are adequate and the service adequate and reasonable?
A Yes.
Q What have you to say to us on that point as regards your refinery?
A You mean what is my ideas on how the piepline should be.... what the cost should be - or what service, whether we figure the service is O. K. for us and everybody else?
Q Well, that is what we are interested in.
A The pipeline is no good to us whatever at the present time because they won't sell us crude that we can take delivery of from the pipeline.
Q I understood that you were getting crude from this National Pete or from Becker at Turner Valley?
A Yes, sir.
Q Couldn't you get that into the pipeline at Turner Valley if there were suitable arrangements at the Calgary end?
A Yes, I would say it could be put in the pipeline if we could take delivery of it here. It would depend entirely on whether the well would want to put this oil through the pipeline.
Q What I was anxious to get from you was whether your complaint was that you could not buy crude oil in Turner Valley or whether your complaint was that having got the crude oil in Turner Valley you had not got proper facilities through the pipeline or you were in a little unfavourable position through having to haul by truck or something like that?
A That is what we are compelled to do, is to haul our crude

by truck, for the reason that we cannot buy it.... well, who would we go to buy crude from? From the pipeline? That is from the pipeline here? You go to the pipeline, the Royalite Company and they turn you over to the Imperial Company and the Imperial Company don't sell it to you. So it is of no advantage to us, at least there is no outlet there for us at all.

Q I understand in Mr. Plotkins' case it is his oil in Turner Valley and he gets it up in the pipeline as far as Calgary?

A Yes.

Q Presumably, if you bought crude oil in Turner Valley you could also get it up from Turner Valley through the pipeline to the Imperial refinery. What I was anxious to hear from you is whether you have any complaint as to whether there should be some service provided so that you could get it to your refinery in Calgary?

A Yes, I feel there should be a service there. It would be no good to us if we had to contract for so many barrels a day, three hundred and sixty-five days a year, because it is impossible for us or any other small refinery, I think, to contract for so much a day and fulfil their contract three hundred and sixty-five days a year unless they have an awful pile of money to put into tankage. If we could go and truck.......

Q That is really going a little far. Supposing the pipeline company here said to you "We will put you in a pipeline right to your refinery," then your position is you would not have the oil to deliver to the pipeline?

A No, we have no contract with anybody that they would put the oil in the pipeline. I might be able to -

[illegible]

a person might be able to arrange that. I do not know anything about that part of it, whether that could be arranged or not.

Q At the present time, so far as the Calgary delivery end is concerned, you have no complaint at all about the pipeline not giving you proper service at Calgary?

A Maybe you should put it this way, what we should like to see the pipeline do that would enable us to get pipeline crude. If the pipeline company would, say, tap that line where it enters the Imperial property, if, as the gentleman on the stand yesterday said, there was around 1,000 pounds pressure where it came down the Valley there, they would need no extra pumps or anything there, and if the pipeline was tapped so that trucks could drive in there and fill the trucks from the pipeline then we would not have to pay any 5¢ a barrel loading charges from the Imperial, and 15¢ a barrel in addition. So probably the whole rate then would be 15¢ a barrel and we could get our oil put into the tank trucks direct from there with one man handling it during the day and one man at night would be all, I believe, all the expense that they would be put to without any big expense or anything.

Q Is it your point at Calgary or some place there should be a station provided by the pipeline at which tank trucks could get supplies of crude?

A Yes, sir.

Q It is your idea that could or should be provided entirely irrespective of the fact of whether you went out and bought the crude oil in Turner Valley or not?

A Well, it looks to me like if the pipeline rate was reasonable

of course, I do not know anything about what the costs of the pipeline are. or what they cost to pump crude from Turner Valley into Calgary here, but I believe the cost could be reduced a lot more than what it is at the present time and still load the tank trucks and make them much more profit by supplying us with crude and all the rest of the independents with crude, without any additional expense to them and would then make the crude that much cheaper to us and we would not bother going to Turner Valley for it with trucks.

Q Wait a minute, you have two ideas there. One is at Calgary to give you efficient pipeline service there should be a station belonging to the pipeline at which crude oil could be handed over to the tank trucks?

A Yes, sir.

Q And you seem to be seeking to impose a second duty on the pipeline, that they would collect or find or buy crude oil at Turner Valley and resell it to you here?

A Well, I understand they have more crude than they know what to do with at the present time. They cannot get rid of all the crude they have contracted for.

Q That would be very obliging of them if they gave you some of that. It might be helpful to both sides. But as a pipeline company it would seem difficult to put the extra duty on them of going out as buying agents for you in Turner Valley and buying crude?

A No, I do not believe it would, sir, because they have got more crude now than they know what to do with. They are alwqys saying how they are trying to cope with the Turner Valley situation as applied to sales of crude. You can see, so far as that is concerned, they are

supplying different refineries in the East and yet they don't want to supply us here. But they can supply their other refineries.

Q Supposing you had a proper unloading station, a delivery station here for tank trucks at Calgary?

A An unloading station, did you say?

Q Yes, that they had a point there where they would deliver oil to your trucks. What would it cost you then to truck it to your refinery from that point?

A I have never went into that. I do not know what it would cost. The cost is estimated on the mileage. It would be figured out on the mileage basis, of the actual miles we are from there to our plant. I cannot give you any figures on that.

Q These all seem rather important factors, don't they, as to whether you get this service of a delivery station here at Calgary to send a truck to. It is one thing to suggest that the Commission should in some way endeavour to get the pipeline to put in a delivery station for trucks at Calgary if it were then to turn out that would be no good to you. It would be just so much wasted money, if the cost of bringing it to your plant then was too high?

A I do not imagine it would be over 5¢ a barrel probably to run it from the Imperial refinery to our plant by tank truck. That is just an estimate.

Q Is your complaint or suggestion so far as Calgary is concerned, does it boil down to this, that at some point there should be some place where you could send a truck, where you have oil and you can get it?

A Yes, sir. Or if you haven't contracted any well, if

they have more than they know what to do with I think they would be glad to get the extra revenue and all around for everybody concerned, and supply the others.

Q Do you feel that you, having regard to the location of your refinery, should pay something extra, 5¢ or whatever it is, to get your oil to your refinery, or are you putting a case to us that the pipeline, - say that you get that at the rate, whatever the rate is?

A No, if we went direct to the pipeline destination, or say outside the Imperial yard and the Imperial did not get a rake-off on it, the rate on our tank truck we will pay the expense then from there to our plant. I do not figure the pipeline should be compelled to deliver stuff direct to our plant because I do not think they would be very anxious to hire trucks to deliver the stuff.

Q No, it would not be by truck. I suppose, if anything, it would have to be a pipeline. But as far as you are concerned, I gather you would be satisfied if you got delivery at some convenient place in Calgary, at the pipeline rate, you would be satisfied then to pay the extra cost of your truck from that point to your refinery?

A Yes, ~~sir~~. You see, at our plant there is not enough barrels going through our plant, that is, the average all the year round, that would warrant the pipeline running from the Imperial plant up there at the present time. But in maybe a year or two we hope it would be, that our business is built up to where we could, or where it would be profitable to have a pipeline running from there over to it.

Q At the present time you are satisfied it would not be fair to ask the pipeline people to incur that capital outlay?

A No, not of a pipeline from there to our plant.

Q At the present time your position would be if you could get a delivery point in Calgary you would pay the cost of the trucking from that point to your own refinery?

A Yes.

Q And be satisfied with that?

A It would depend entirely on the rate that they were charging us for putting the oil in our tank trucks, what it cost laid down in our tank trucks.

Q I was rather assuming, perhaps wrongly, up to that point it would be included in the rate?

A Yes.

Q I suppose if they put it in the Imperial refinery tanks.....

A If it went into the Imperial's refinery they would have to get an additional charge on it and it would run up the cost of so much higher that I do not see any reason why the pipeline could not load our trucks and all independent trucks outside the Imperial gates, completely, so that there is just the one pipeline charge and no handling charges or commissions in any way.

Q I did not make what I was putting to you quite clear. I think I am right in my understanding that they deliver the oil into the tanks of the Imperial at a charge of 15¢ per barrel?

A I think so.

Q If you got a corresponding service and it was put into your tank trucks?

A Yes, sir.

Q At whatever rate was fixed, then you are satisfied for the present that you should absorb or bear any extra

expense of trucking the crude to your refinery?

A Yes, that is the hauling charges would be borne by us.

MR. FRAWLEY: That is all, Mr. Munro.

....

ARTHUR MAW, recalled, testified as follows:

Q MR. NOLAN: Mr. Maw, I had finished asking you questions, but my memory is there were one or two statements which were being prepared at the request of the Commission, is that right?

Q That is right, yes.

Q I am sorry, I do not remember what they were. I remember one was a statement having to do with salvage.

A They both were.

Q Will you please explain to me, nd refresh my memory, firstly, what were those two requests?

A The first one was the one that Major Lipsett asked for, to show what the rate of return would be, specifically in 1937, it was, as shown on our Exhibit A of our Exhibit "100", only providing for salvage in amortizing an asset instead of amortizing it 100%. The figure which you asked for was, I think I showed 41.99¢ as the rate of return on Exhibit A for 1937.

MR. COMMISSIONER LIPSETT: Yes, for 1937.

A And you wanted to know what that would be, allowing for 10% salvage on the fixed assets. So I have made up this Exhibit here, which shows the rate of return for each year along the bottom and the average year, including 1937. I have made an estimate of about 40 - that is this figure, 40.66.

MR. NOLAN: May I offer that as Exhibit, it would be No. "135".

(Statement in question is now marked Exhibit "135".)

A This is exactly the same in the bottom three lines as our Exhibit A.

Q In Exhibit "100"?

A In Exhibit "100", except I have set them the other way for convenience, and taking into account 10% salvage value on the fixed assets whereas our Exhibit A amortizes the entire cash investment 100%.

Q THE CHAIRMAN: This has been worked out on your basis of 1946?

A Yes.

Q And, of course, your own basis of arriving at the capital investment?

A That is right, sir.

Q MR. NOLAN: Is the difference between Exhibit A of Exhibit "100" and Exhibit "135" only the difference for the nine months ending September 30th, of the figure 32.11% as against 31.35%?

A I have not got Exhibit A in my hand. That is right. For this 32.11 we now take 31.35.

Q And the average year.....

A Bringing it to the equivalent of a year, 42.81 becomes 41.80%.

Q And 42.81 is in Exhibit A of Exhibit "100", and that would be changed into 41.80 in Exhibit "135"?

A That is right.

Q MR. COMMISSIONER LIPSETT: The effect of which, Mr. Maw, would be in September, 1938, to increase your profit from $368,698.00 to $374,741.00?

A That is right. At least I will get a copy of it, Exhibit A, that is correct, Major Lipsett. $368,698.33 becomes

$374,741.17.

Q It has this curious other result that although your profits increase around six thousand dollars the rate of return on the capital on that basis is reduced from 32.11 to 31.35%?

A That is right. That is because the investment changed also. The investment has increased from $1,148,378.79 to $1, 195,321.33. To arrive at these figures you will understand it was necessary to make the change from 1926 throughout.

MR. NOLAN: I do not think Exhibit "135" requires any more explanation, Mr. Chairman. It is a computation which, I think, speaks for itself, and was for the purpose of comparison.

Q Now, you had another duty to perform, what was that?

A This again was a statement which Major Lipsett asked for to show the cost per barrel on our 1946 basis after providing for rates of return and income taxes, only again on the basis of amortizing the fixed assets with a 10% salvage value instead of amortizing them 100%, as we did in our first presentation. On this one again I made an approximate estimate at the time you asked for this on the 10% rate of return and the 20% rate of return. I find that my estimate on the 10% was exactly right. It was .07¢ less than we did show. And on the 20% return I was out .02¢, instead of 11.36¢ it is now 11.38¢.

Q That is with salvage, as I understand it?

A That is with salvage.

(Statement in question is now marked Exhibit "136".)

THE CHAIRMAN: Now, this is comparable with what previous statement?

MR. FRAWLEY: Exhibit "120".

A I am afraid I do not know the number.

Q MR. FRAWLEY: That is Exhibit "120" if that is it?

A That is right. Compared with that one No. "120". It was in connection with this Exhibit "136" which I have just put in , Major Lipsett, that you asked me for our last word on the rate. You wanted to have the final figure on the rate.

THE CHAIRMAN: With salvage?

A Well, no, you put it to us, if I remember, that we might either have salvage or not. I was not able to tell you at that time which we wanted you to deal with. But insofar as the rate can be affected by the figures taken from the books at all, that is up to this point, we would like you to consider Exhibit "136" as our presentation.

THE CHAIRMAN: What?

MR. NOLAN: What the witness is saying, Mr. Chairman, is, he was asked to make up his mind whether he wanted to present his statement with salvage or without salvage. He now comes before the Commission and says he intends to present it with salvage and this is the statement that he is prepared to rest upon.

Q So far as your presentation is concerned?

A That is right.

Q MR. COMMISSIONER LIPSETT: Then, Mr. Maw, take this Exhibit "136" - so that I may understand it clearly, and the figures in Exhibit "100 C8"?

A Yes.

Q The cost per barrel that you give in Exhibit "136" is 6.35¢?

[illegible]

T3
14

A That is correct.

Q And the similar figure leaving out pipeline losses for the moment, in Exhibit "100 C8" is 6.52?

A That is correct.

Q And is that difference of .17¢, does that represent the salvage?

A That is the difference which is solely due to the change in the provision for amortization for the year. In other words, we have made no change in the operating costs, direct or indirect. The whole .17¢ difference is accounted for by the new amortization figure for the nine months.

Q MR. NOLAN: Is it not a question of whether you have salvage or you have not salvage?

A Yes, it is due to amortizing the investment less salvage that we have a less charge for amortization on the new basis to the extent of .17¢ per barrel.

Q MR. COMMISSIONER LIPSETT: I do not know if you are on something else, Mr. Maw. In Exhibit "136" you gave the cost per barrel of 6.35¢?

A That is right.

Q That is the cost?

A Yes.

Q MR. NOLAN: With salvage?

A That is after allowing for amortization during this year on the basis of amortizing the assets to 90%, which will be a smaller charge for amortization than we had when we amortized up to 100%.

Q That is what I am asking you, is the difference between---
A That is the difference.
Q Between 6.52 in Exhibit "138" and the 6.35, that difference is caused by that 10% salvage?
A That is right, yes, that is right.
Q MR. NOLAN: Now that was all that you were asked to do, Mr. Maw? so far as you can remember?
A I think so.
Q MAJOR LIPSETT: One other figure that I wanted to see if I understood clearly, it was in reference to this Exhibit "109" about which we had all the discussion before, Mr. Maw?
A Exhibit "109", that is the one where we made the estimated weighted average?
Q Yes?
A Yes, I have 109.
Q Mr. Maw, I have this partially clear in my mind, that Exhibit "109" was put in for an entirely different purpose to your Exhibit "100" (A) but what I want to get at exactly from you with reference to Exhibit "109", is, what exactly is this figure of $121,024 under the column "Percentage Utilities Assets"?
A You mean how it is made up?
Q Yes.
A Well it represents, taking it from 1931 to 1938 only for the time being, the figures from 1931 to 1938 represent the operating labour ratio for each of those years applied to the actual additions in indirect assets during those years; that is how those figures were made up, that is to say in 1938 $5334,82,. , that is 28 something percent, I have forgotten

the actual percentage, of the actual money spent by the Royalite Oil Company on new additions to indirect assets during that nine months.

Q THE CHAIRMAN: That is what I was trying to get at this morning, why is that necessary when we are told that this pipeline division estimates what it needs for each particular thing including tools and everything else, they budget for it and the budget is passed and they pay it out or they do not and if they do not it goes back to the Royalite.

A But that does not cover any expenditures similar to these. That budget which you were looking at this morning, that only covers such items as will find their way into the direct assets of the pipeline department. This $5000 in 1938 might conceivably be made up of an addition to the boiler plant or the electric plant.

Q Well it might conceivably.

A In fact it is items of that nature that it covers. It does not cover anything which is an asset directly belonging to the pipeline department. This is only the indirect assets, this first column.

Q You say it might be something but I say now, what is budgetted for here, such things as storage tanks?

A That is right, direct assets of the pipeline department.

Q I see, and this column relates, forgive me for interjecting when it is fresh in my mind, this only relates to matters which have never been allocated to the pipeline division?

A That is correct.

Q But they would be utilized by it as well as other divisions of the Royalite Oil Company?

A That is correct.

THE CHAIRMAN: Excuse me for interrupting.

Q MAJOR LIPSETT: Certainly. Just to come back to this Exhibit "109", Mr. Maw. I plead guilty to not being able to follow it so far. This says here 1935, the first figure of $8,019.93?

A Yes, well that is an arbitrary figure.

Q What is that figure now?

A That is 10% of $80,199, I believe 28 cents, which was the total investment of the Royalite Oil Company at that time in indirect assets, assets that were not direct assets of any of the operating departments.

Q And that was your, was that figure in the books then as a charge to the pipeline division?

A No.

Q In that year?

A No.

Q Was this, what you might call, without any offense, a theoretical figure which you took on a theoretical proportion.

A Yes, and it is all an arbitrary 10% basis because we did not have any labour ratios for years past, to 1931.

Q 1931?

A But the first year, 1931, 1932, and 1933 were all so close to 10% that I took 10% for all years before 1931 as being fair. It is, as we pointed out before, only an approximate calculation.

Q I just want to try and get it clear in my mind, what this particular column is, it is the only one I am not quite clear about, your first four years up to 1928 were 10% of the actual capital investment in those utility assets?

A That is right.

Q And the next three years to 1931 you took 10% through that period as well?

A 1925 was 10% of the balance at that time, 1926, 1927, 1928, 1929 and 1930 are 10% of the additions each year.

Q Well now coming from 1931 on down to 1938?

A 1931 to 1938 is not 10% but the labour ratio percentage of the additions each year.

Q THE CHAIRMAN: You say you have to take a starting point so you fixed it in the fashion you mentioned?

A That is right.

Q And after that you employed the labour ratio basis for any further caluclations?

A That is right.

Q MAJOR LIPSETT: And this column then is 10%, the earlier years, of all the utility assets and in the later years om the labour ratio, or at least thelabour outlay, the labour ratio of these utility assets?

A Yes, the additions each year. These are the year-end balances, they are not the percentages of the year-end balances but of additions or reductions in the year-end balances of each year. In other words we start with $80,000 worth approximately. Now the next year the additions were $8,896 and in 1927 the additions were $334,096.

Q But in those earlier years the first year you have any record of, was there any charge at all or allocation as between what was then the main business, the producing end of the oil and the pipeline, was there any allocation in their books?

A Of the assets.

Q Yes?

A No.

Q Were those assets all taken on as part of the production end?

A Well, of the production end.

Q What I mean was the pipeline at that time treated as completely ancillary to the main business on the books?

A Approximately on the same basis as it is now. There were direct pipeline assets in those years and there were direct scrubbing plant assets and there were those assets which this column represents such as the boiler plant, electric plant, forge and machine shop, warehouse, garage.

Q Well does this column of "109", does it cover in the period on the basis that it is made up, exactly the same assets as are covered in this item of $324,252 in Exhibit (A) of 100?

A Yes.

Q They are the same items?

A That is right.

Q I appreciate that the two exhibits were put in for two entirely different purposes, Mr. Maw, but I do want to put this to you that, is there not some inconsistency in putting before us two exhibits for the purposes of this Hearing , one of which exhibits, in one you treat these assets as of the value of $121,024 and for the purposes of the other exhibit you treat them as $324,252?

A There would be an inconsistency if I considered that on Exhibit "109" I was attempting to arrive at a valuation of the assets today but I am not doing that on Exhibit "109". On Exhibit (A) of "100" I am putting a value on the assets today.

Q Yes, but you are putting in Exhibit "109" on this theory, or on

your basis of what we would presume to accept as a fair statement of facts, and in the other Exhibits you are putting to us something which you ask us to accept also on the basis of which these facts are very nearly three times as great, that figure is nearly three times as great, and what I would like to put to you is this, we have heard a great deal about carrying the thing to its accounting conclusion, it seems to me there must be something that requires an explanation if in order to present two results you have to give us as comparable figures $121000 in the one case and $324000 in the other?

A Well the only explanation that I can give you is this that in Exhibit "109", in preparing that Exhibit we felt that to arrive at a weighted average number of years during which the investment would be employed on the basis of amortizing by December 31st, 1947, that to arrive at that period of years we should consider some investment of indirect assets as well as the direct assets and although we do not know of any method by which it can be done absolutely correctly from a mathematical point of view, we considered that we were giving a fair representation to the utility assets for this purpose, by including this first column in Exhibit "109".

Q And would there not be some doubt as to the value of the inferences which should be drawn from either Exhibit if what apparently is the fact, or your acceptance of the correct figures from the books, if there is that variation in the two Exhibits, I mean whether it comes from one Exhibit or another, Would there not be one fact that you would follow through as your expenses and on which all your submissions would be based?

A I think---

Q I am not putting this forward as a criticism but I am trying to find out what it was?

A The way I looked at it is this, in 1938 where we have this much larger figure of 324 thousand, that at that time the pipeline division was of such importance in the company and taking up so much of the company's assets, that it is only right that it should be looked upon as using the company's assets to a larger extent in 1938 than it did in the earlier years when it was not transporting nearly as much oil. I think that is the justification for having the larger figure at 1938 than in the earlier stages. We are trying to make a picture of the pipeline operations at 1938 in Exhibit "100" (A) and if you will look back---

Q THE CHAIRMAN: Is it not something more, are these not, in this figure of $324,252.85, have you not computed the assets of the kind allocated to the pipeline department as shown on Exhibit "134"?

A No.

Q You have not?

A No.

Q They are additional?

A They are all in the next figure above, the direct figure, $1,227,320.41.

Q Supposing the pipeline department is severed today?

A Yes.

Q What, according to your allocation, in moneys worth, would they be entitled to walk away with in the way of equipment and tools and so on?

A The whole of the first figure.

Q The whole of the first figure?

A $1,227,320.41.

Q Yes?

A Plus half of the additions for 1938 that are not included in that figure, bringing it up to $1,465,150.56, that is what they would be entitled to in direct assets and then they would be entitled---

Q $1,465,150.56?

A Yes, and then they would be entitled to these direct assets, these are theirs and there is only---

Q What did you say about half of 1938?

A That was changing this figure of 1,million two hundred and twenty seven, to bring it up to one million four hudred and sixty five, because one million four hundred and sixty five are the assets, of course there again---

Q MAJOR LIPSETT: That addition is shown?

A You asked me what assets they would be entitled to, that I should say are the assets plus such items as the 6-inch loop that is not there; any physical assets which they are entitled to today, we could give you Mr. Morrison's figure on direct assets.

Q MAJOR LIPSETT: That is the $1,156,197 if you will agree?

A It is about 156 thousand dollars, yes.

Q MR. NOLAN: I have it here.

A $1,306,368.48.

Q MR. NOLAN: The witness is reading from page 23 of Exhibit "88", being Mr. Morrison's report.

A Those are the direct assets which belong, but then they are also entitled to consider to some extent the indirect assets in some proportion.

THE CHAIRMAN: Yes, one would think so.

Q MAJOR LIPSETT: In Mr. Morrison's report Exhibit "88", page 23, Mr. Maw?

A Yes.

Q At the footnote he says "the net value of the pipeline assets is $1,166,197.25 which is the above amount of $1,306,368.48 less depreciation written off amounting to $140,171.23"?

A That is correct.

Q Now is not his figure, $1,166,197 as compared with your figure in Exhibit (A)---

A No, no, because my figure also includes the $140,171.23 which Mr. Morrison has put back. I put this back too, that represents mainly the old 4-inch line, the first 4-inch line, I mean that is the major item in that and that is reflected in my balance just as it is in Mr. Morrison's balance.

Q THE CHAIRMAN: In a word, what in your opinion, taking into account the indirect, their percentage in the so-called indirect assets, what money interest have they in the Royalite Oil Company if it is found necessary to sever them today, or on the 1st of January, 1939, that would be your $1,465,155.56 plus what, a certain percentage of indirect assets, would it not?

A Yes. It is extraordinarily hard to answer that question in that way because if you separate the pipeline division from the rest of the company today---

Q Yes.

A You would have to leave those assets with either one side or the other, you cannot split them.

Q MR. NOLAN: But the Chairman says their money value.

Q THE CHAIRMAN: I quite appreciate that, and that is

why I ask you to take their money's worth, if the pipeline company were severed tomorrow, it would not leave necessarily all its assets, nor would they take them all away. Now you have seen fit to make applications between those two heretofore, now make another and tell me in money's worth as nearly as you can.

A I would have to suggest $324,252.85 as shown on Exhibit (A)---

Q THE CHAIRMAN: As so often happens I might be confused, I thought you had got $1,145,000?

A No, my Lord, I substituted, for one million four hundred and sixty five thousand, I substituted the figure shown on Mr. Morrison's statement.

MR. NOLAN: It is on page 23, Mr. Maw, of Exhibit "88".

A $1,306,368.48, that is the cost of the capital assets on Mr. Morrison's basis and there again I am afraid I am in difficulties again because his views of cost is not the same as mine.

Q Yes.

A So it is a little hard, you see my figure of fixed assets, of fixed investments, does not pretend to be the fixed assets that they have now but the money which they had sunk in the fixed assets and I will have to make quite a calculation---

Q Supposing they were going to take that money out, they ought to have a fair share, should they not, in accordance with what one might fairly estimate, of their contribution?

A I think what they should do if you are going to separate them today is to remove the actual direct assets of the pipeline department irrrespective of what value may be on them, take them away and say those are now ours, belong to the new company.

Q Yes.

why I ... to test their longy's worth, if the ...

company ... are perhaps ... it would not ... necessary

all the ... that I ... all away. ... you

have ... between the two ...

fore. ...

as you can.

I would have ... as ... on ...

[illegible]

... my ... rated, ... four ...

... the figure ...

[illegible]

A And then as regards the indirect they should say that "we enjoy an interest in those assets and as they cannot be split up you must give us some capital to represent the capital interest in those assets which we have" and I think that that should be $324,252.85.

Q After they have taken away?

A After they have taken away.

Q Every asset which has ever been allocated to that department, what you call the direct?

A That is right. They will take away all the direct and in addition their interest in the indirect is $324,252.85 less the amortization reserve on it.

Q And do not the direct appear in the books, that is the amount on Exhibit "100" (A)?

A We have allocated the reserve of $166,568.43 against the $324,252.85.

Q MR. NOLAN: No, what the Chairman is saying, now, what is the value of the direct assets of this pipeline company that we can confirm, can you go to the books and get the figure?

A On one basis, yes.

Q MAJOR LIPSETT: Is that not this one million two hundred and twenty seven thousand plus a half of the other?

A Not quite because that $1,227,324.41 plus half the additions of the year includes also the money we have spent in assets which were no longer, which we no longer have, like the 6-inch loop.

Q You get all those assets?

A All the assets which are left in that figure we get those?

Q Yes, and then you get in cash $324,252.85, both less depreciation?

A Less, yes, less $166,564.43.

Q Now then?

A Approximately $160,000.

Q That is on two items?

A To represent the net value of the indirect assets, the $160,000 represents our interest in the boiler plant and the steam plant.

(Go to No. 3664)

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

Q Would there have to be added to that, in addition, the $410,000.00 you have in the bank?

Q THE CHAIRMAN: The money in the bank.

A I am sorry I do not quite understand that question.

Q MR. COMMISSIONER LIPSET: I say in addition to these direct assets, and $324,000.00 less depreciation of indirect assets, would this new company have in addition the $410,000.00 that is in the bank in cash?

A Yes, it will have that. It will have that, but if it has that it will have to deduct something from the amortization reserve on indirect of $75,453.55.

THE CHAIRMAN: I wonder if it would not be more convenient, Mr. Maw, and much better, if you at your leisure worked this out. So that Mr. Nolan will understand my simple language, assuming this Department was to be severed from the rest of the Company tomorrow, assuming that the time came we recommended that and that recommendation was acted upon by somebody capable of enforcing this requirement.

MR. NOLAN: Tomorrow?

THE CHAIRMAN: Tomorrow, or let us say the 1st of January, 1939.

MR. NOLAN: Yes.

THE CHAIRMAN: It would be easy to work upon. What is properly allocated to the company in the way of assets or cash in the bank? Of course, converted into cash or put in any way that accountants would think appropriate, to associate with that severed body. This may never come to pass, but the calculation

may be well worth while.

MR. NOLAN: We have another point, in the first place, on what basis are we going to value our capital assets?

A I think the best answer to that question would be for us to submit......

THE CHAIRMAN: The accountants have been working for a long time on these capital assets associated with the pipe line.

MR. NOLAN: But we are not agreed upon the basis upon which we are proceeding.

THE CHAIRMAN: No, and I do not suppose they ever will be.

MR. NOLAN: No. But if we take our basis of the cash value of the capital assets, we can say to you firstly this is the amount of money that the pipe line has in direct assets.

THE CHAIRMAN: Yes.

MR. NOLAN: Then you have to add one-half a year for the amortization on the additions?

A Yes.

Q Then the next stage is the interest the pipe line company has in those indirect assets which have been jointly used by it and other departments, and they might be reduced to a figure.

THE CHAIRMAN: Yes, quite.

MR. NOLAN: And there will be an answer which will represent what, in our opinion, is the worth in money, cash money of the pipe line department, direct assets and indirect.

THE CHAIRMAN: Yes, quite so.

MR. NOLAN: Do you understand that?

THE CHAIRMAN: And that, I take it, will include just such things that have been budgetted for from year to year, peculiarly relating to the pipe line department.

MR. NOLAN: As direct assets?

THE CHAIRMAN: Yes. Then we would have all of the assets, according to the theories of the accountants of the company, and they should be as concerned with seeing to it that they only get a very fair share changed into this Pipe Line Department, no more and no less. Then if Mr. Morrison has any theories to advance or any other accouhtants, we will hear them.

Q MR. NOLAN: Do you understand me, Mr. Maw?

A Yes, I do. I think we could get that tomorrow morning.

Q I am not suggesting anything that you should do that is not possible of being done, is it?

A Well I suggest, Mr. Nolan, we have already done that.

Q Show me where, because that is what the Chairman wants to see?

THE CHAIRMAN: There is no use having it done again if it has already been done.

MR.NOLAN: We will be giving you the same figures that we have already presented.

Q Will this be shown by Exhibit A of Exhibit "100"?

A No, it will not. Plus additions.....

Q The Chairman is not getting a figure. Every time we give him a figure it is plus something else he has not got.

A Excuse me, Mr. Nolan, I think I have given him that.

Q All right, if it is in another Exhibit, it certainly is not in Exhibit A of "100".

THE CHAIRMAN: As I understand Mr. Maw, Mr. Nolan, he can without great difficulty, have this prepared and thought out by tomorrow morning?

A Yes, we can.

Q I think it would be more satisfactory to him as well as to us if he did that before he put it in. Think it over carefully I mean so he will feel it is his considered opinion?

A Yes, I think so too.

MR. NOLAN: We seem to be understandable to the accountants, Mr. Chairman.

Q THE CHAIRMAN: Mr. Maw, may I ask you this. I have not my associate's facilities with figures. This great mass of accounts is simply bewildering to me. I am just wondering if I can understand Exhibit #136" which is the last exhibit you have put in. Now on your own theories, and no one else's, you have invested capital in this pipe line of $1,195,321.33, is that right?

A That is right subject to the note on Exhibit A which reads: "The investment shown above represents the balance at the beginning of the period plus one-half the additions for the period." Except for that, that is correct.

Q All right now. Let me make a note of that here than.

MR. NOLAN: May I dictate it to you, Sir? The investment shown above is at the end of each period......

MR. FRAWLEY: There is only one period on Exhibit "136".

MR. NOLAN: Then we will change it.

The investment shown above?

A Represents the balance.....

THE CHAIRMAN: Yes?

MR. NOLAN: I am lost now.

A That is all right.

MR. NOLAN: That is all right to that point, but where do we go from there?

A Carry straight on.

Q As at the 1st of January 1938, plus one-half the additions for the nine months ending September 30th, 1938?

A And I should add one further remark to that, that that note applies to that part of the investment which consists of capital assets only and not working capital.

Q MR. COMMISSIONER LIPSETT: What I wanted, and I think the learned Chairman wanted, was a rate per barrel, cost per barrel on your basis brought right down to date. You give us what I took was your cost per barrel here, but now apparently.....

A It is our cost per barrel.

Q It is your cost?

A Yes.

Q Then when you come to the revenue return is the 8.86 cents that you show as showing a 10% return, is that on your total capital right down to date, or is that only based on $1,195,000.00.

A That is based on $1,195,000.00.

Q Which may lead to serious error?

A No. We consider that is our investment, for the purposes of obtaining a return on our investment. We do not take a return on our investment as it is today, but our return on what is approximately our average investment during the period, during the period of nine months.

Q Then if your figures were accepted throughout, in this Exhibit "136", take your last figure, a rate of 11.38 cents would give you 20% on all the capital that you in your estimation have in the Pipe Line Division.

A Or had during the period, I should say, had during this nine months that we are discussing. That is the capital which I had invested during that period and 11.38 cents will give me 20% on it.

Q Putting it another way so I may understand it. 11.38 cents per barrel is the rate that you are suggesting today that will give you 20%?

A Subject to the considerations which do not appear in the figures......

THE CHAIRMAN: Subject to the considerations that do not appear in the figures. Now what are they? We must get that straightened out.

MR. NOLAN: We did this. We have been over this, but we will go over it again. What are the two points?

MR. COMMISSIONER LIPSETT: Mr. Nolan, before you do, what we were asking for was your final cost.

MR. NOLAN: That is right.

MR. COMMISSIONER LIPSETT: Brought down to a rate per barrel.

THE CHAIRMAN: Not subject to anything.

Q MR. NOLAN: You cannot do it?

A I have, as far as I can.. The 11.38 cents, that was made on the figures from the books, but I do want to point out that that is a rate which applies only to the year 1938.

THE CHAIRMAN: Yes.

A The nine months to September 30th, 1938, and a similar figure for 1939 must be higher.

Q MR. NOLAN: Because?

A I did go into that before.

Q Give it to us again, in a word?

A For one thing we put in an exhibit to show how much larger the amortization charge alone will be in 1939, and higher operating charges each year from now on. So that I say subject to the considerations which we cannot show from past figures, 11.38 cents is our rate as taken from the books. I wanted to make it quite clear we were not suggesting that as a fair rate. There are other considerations which you cannot get out of the books which render this rate quite insufficient.

Q THE CHAIRMAN: Well you can get your higher amortization out of the books cannot you?

A Not for the future, no, because we do not know what additional capital expenditures we are going to amortize in the future.

Q MR. COMMISSIONER LIPSETT: Then what should be added in order that we can arrive at a rate?

A That is a different question.

Q MR. NOLAN: Answer to the best of your ability. The Commission wants to know if you think

something should be added to the 11.38 cents, what that addition should be and your reason for adding it.

THE CHAIRMAN: Quite so.

A May I defer that till I have made the calculation?

Q MR. NOLAN: Will it take a minute?

A No, it will take a little longer than that. I want to translate into cents a barrel the increase in amortization for 1939 alone for one thing, as a basis before I go any further. And that would take me a little time. I can give you that the first thing in the morning, and I can answer that question then to the best of my ability. My opinion on that will not be a very valuable one. I can give it to you for what it is worth.

MR. NOLAN: Well that is all the Commission will take it for.

THE CHAIRMAN: You are asking us to make some allowances aren't you?

A Yes.

Q I say you are asking, I mean the people whom you represent are?

A Yes.

Q And if you haven't any opinion about it how do you think we are going to come to one?

A I have an opinion about it.

Q And you would have reasons for your opinion, or you would not form it?

A That is right.

Q Well that is all we want. You see, Mr. Maw, ultimately out of this mass of figures something must emerge - that we have in all our statements, others as well as your own -

something must emerge. We naturally are trying to simplify that?

A Quite.

Q And get your viewpoint as simply as possible, and right down to the last word you have to say in respect of what your submission is that we should find?

A Yes.

Q So if this return on capital of 20% would be 11.38 cents a barrel - you say well that is all right so far as it goes, but there are certain other considerations which should give a higher rate?

A That is correct.

Q Per barrel. Well we are not going into the dark to guess about that?

A No.

Q We want you and anyone else who can help us to tell us what these considerations are and what they lead to in figures?

A Yes.

Q According to your best estimation?

A What I was asking to point out was that up to the point I gave you the 11.38 cents, these figures are all based on facts which have been recorded in the books, but for the future the reason that I cannot take my 11.38 cents into actual figures any further, is because I do not know what the figures are going to be in the future. I can make an estimate.

Q Cannot you from the history of the past make estimates as to the future?

A Yes.

A.

[illegible] we naturally are trying to [illegible]

[illegible]

And [illegible] simply as [illegible], and [illegible] to say in [illegible] that you [illegible]

this?

Yes.

So if this [illegible] as 11.38 cents a barrel - you [illegible] all right so far as it goes [illegible] there are certain other consid-erations which [illegible] give a higher [illegible]

That is correct.

Per barrel. Well we are not going into the dark to [illegible] about [illegible]

[illegible]

[illegible] considerations are and what they lead [illegible]

[illegible]

Q Helped as you are by the budget which has been passed?

A Yes. That budget is part of my consideration.

MR.NOLAN: I have some sympathy for the witness because an accountant's mind goes to books and figures that are there, and it is what he as evolved for us. Now he is being asked to make an estimate.

THE CHAIRMAN: They show surprising mental agility when they talk about labour ratio bases and one thing and another.

MR. NOLAN: And what has happened.

THE CHAIRMAN: Yes.

MR. NOLAN: And now you are saying to cast your mind ahead.

MR. FRAWLEY: On their idea of what has happened.

MR. COMMISSIONER LIPSETT: Did you say ideal or idea?

THE CHAIRMAN: Is there anything else?

MR.NOLAN: That is all we have.

Q MR. FRAWLEY: Do I understand now you are going to come in with one last exhibit with an estimate?

THE CHAIRMAN: No, two.

Q MR. FRAWLEY: With two last exhibits which will be something that you would be satisfied that the Commission should fix on the rate for this pipe line for the year 1939?

A In my own opinion, only, yes.

Q Well, an estimate?

A That is right.

Q Because 11.38 cents is what the rate should have been, allowing only 20%, what the rate should have been say

Notice as [illegible] by the [illegible]

[illegible] That [illegible] is [illegible]

[illegible]

the witness [illegible] accept [illegible] to be [illegible]

[illegible]

[illegible]

on the last day of December, 1938?

A That is correct.

Q The rate was 15 cents, but of course that showed a greater return than 20%?

A That is so, subject as I say always to the considerations which I am going to try to estimate, that is to say, extend over 1938 as well as in the future.

Q Yes, I thought this meant, at least it means that the cost per barrel, without the rate of the return, the cost per barrel alone was in 1938 6.35 cents?

A That is right.

Q When you add the rate of return you do it at variable rates?

A That is right.

Q And 20% gives you 11.38 cents?

A That is correct.

Q So that if you had been carrying oil and charging the Imperial Oil 11.38 cents per barrel for the year 1938, you would have had your cost back plus 20% return on your money?

A That is correct.

Q Now we are going to see what you should charge the Imperial Oil for the year 1939, getting your cost and 20% on your investment back?

A That is correct.

THE CHAIRMAN: I suppose it would not be difficult to show that calculation made on your various percentages?

A No trouble at all.

MR. NOLAN: We intend to do that.

MR. FRAWLEY: And the Chairman wishes it to be put on Exhibit "136" with the further matter so that it will be all on one sheet of paper.

A That is correct.

Q Am I right in saying there are now in the main perhaps altogether just three points of divergence between your submissions and Mr. Morrison's? That is the allocation of the indirect?

A Yes.

Q The build-up of the capital......

THE CHAIRMAN: Take that slowly will you? Three points of divergence?

Q MR. FRAWLEY: Three points of divergence. The allocation of indirect costs?

A Yes.

Q The build-up of the capital assets?

A Yes.

Q Both direct and indirect?

A Direct only.

Q Only direct?

A I think.

Q The build-up of the indirect assets are affected by the fact you have two different rates of allocation, rates of percentage?

A Yes, that is right.

Q So that is we take into the allocation the indirect costs.....

THE CHAIRMAN: You have to build up the capital assets?

MR. FRAWLEY: The capital assets, direct and indirect?

A Yes, that is right.

Q THE CHAIRMAN: Direct and indirect? You include indirect now do you, Mr. Maw?

A As being different in our own presentation and Mr. Morrison's yes.

Q MR. FRAWLEY: The build-up of the direct is different for one reason, and the build-up of the indirect is different for another reason?

A That is right.

Q And the last point of divergence is upon the rate of return?

A That is right. There is one other difference too, the tank rental. I think that is about all.

Q Then we will add a fourth one to the item of direct costs, namely Rental of Tanks?

A That is right.

MR. NOLAN: I wonder, Sir, if Mr. Frawley could put it to the witness, there is one reason why we differ on the direct and another reason why we differ on the indirect.

MR. FRAWLEY: There are different reasons.

MR. NOLAN: I wondered if the witness could not put that in a word. You follow me do you, Sir?

THE CHAIRMAN: Yes. Mr. Frawley, you have the suggestion.

Q MR. FRAWLEY: Mr. Maw, it is suggested that along with each point of divergence the reason for the point of divergence might be set down. With respect to the allocation of indirect costs, why is

there a point of divergence?

Q Because we use different bases.

Q You are familiar with Mr. Morrison's basis as well as your own. Would you in a word describe them for the record?

MR. NOLAN: Only it is a difference in the labour ratio basis.

MR. FRAWLEY: All right, a difference in the application of the labour ratio basis?

A A difference in the labour ratio basis throughout, before its application. That is Mr. Morrison has used the total payroll labour basis and we have used the operating payroll labour basis. And then we have also applied them differently.

Q Yes, I think at the moment that is enough description of it.

Q THE CHAIRMAN: There are two differences, one is they take a different labour ratio basis, and they apply them differently, is that correct?

A That is correct.

Q MR. FRAWLEY: With respect to the build-up of the capital assets, the direct capital assets?

A Yes.

Q The divergence there is what?

A Is that we have included with the direct assets all the cash which has been invested in direct assets, less the cash which has been realized from the sale and retirement of direct assets. Mr. Morrison has included the direct assets which are still not used.

Q Eliminated.....

A Eliminated expenditures on assets which have ceased to be useful.

Q Eliminated the cost or the investment in capital assets which are not now used or useful?

A That is correct.

Q Then the third is one matter in the direct costs. There is a divergence there and that is what and why? I am talking about one item in the direct costs, namely the question of rental?

A Yes, we have included the tank rental as a direct charge in 1938.

Q Because the company paid it?

A Exactly.

Q And Mr. Morrison has eliminated it because in his opinion, and on certain advice, it is not a proper charge?

A Yes.

Q The last matter is the rate of return and that is just simply a divergence that you feel 20% is the proper rate of return and Mr. Morrison has given his opinion as 8½%?

A That is true. There are small differences in the indirect assets, but that is only because we have applied different percentages to the total and including the Pipe Line Department's share.

Q Now, Mr. Maw, perhaps I can start off with this question. Your Company has been auditor of the books of the Royalite Oil Company for how many years?

A It will be either five or six years, I am not sure.

Q The fifth or sixth year. You are quite familiar with what the situation was say two years ago, and

last year before there was any question of fixing the pipe line rate either by the Board of Public Utility Commissioners or this Commission. You are familiar with what the situation was at that time?

A I was familiar with their books.

Q You were the auditor at that time?

A Yes.

Q And at that time you know what they did was to retire - they made allowances each year for the retirement of the capital assets on the basis of 10%?

A They depreciated the assets at the rate of 10%.

Q Which meant that they put down in their costs every year an item of 10% of the value of the capital assets. It was, in other words, a desire to retire their investment in ten years?

A That is right.

Q And that meant that the assets, as you studied the picture two years ago and last year, it meant that the assets which had been purchased ten years ago or more had been fully retired in the books of the Company?

A That is right.

Q And the assets which were purchased 5 years ago were retired one-half in the books of the company?

A Well we will say they were depreciated one-half. The asset was still there in full but it had a reserve of about one-half against it.

Q Amortization and depreciation for the purposes of this rate case or this Commission, there is no difference is there?

A Not really, no.

Q So the assets which were purchased 5 years ago there had been provision for their retirement to the extent of one-half?

A That is right.

Q And assets that had been purchased last year there had been provision for only a small part of their retirement?

A That is right. It is done on a monthly basis.

Q Why, when you were asked or retained by the Company for the special purpose - by the way this is a special retainer of course, is it not, to come to this Commission and present this case?

A Yes.

Q When you were specially retained to present a case to this Commission why did you not take the thing as you found it, as is, as we say sometimes, as you found it in the books of the Company, and say to this Commission "A certain portion of our assets have been retired completely - another portion has been retired 50% and some 1/10 and some not at all" and presented to this Commission the capital investment based upon what actually had taken place and was taking place in the Company's books, and for all we know is still taking place in the Company's books today outside the walls of this Court?

A Why didn't we, in other words, take the books as is and present them?

Q Yes?

A Well mainly I think because we think we get a more accurate picture with our own presentation than we would have by taking the figures from the books,

and making no adjustments to them. That is quite a broad.....

Q The books were properly kept and kept by a reputable accountants and efficient accountants?

A Yes.

Q Why didn't they present a true picture for the purposes of this Commission as much as for the shareholders of the Royalite Oil Company?

A Well to take the question of depreciation alone, which you have suggested to me mainly in this question, in my own opinion the rate of depreciation used in the books was governed probably to a considerable extent by Income Tax considerations.

Q Well, for whatever reason it was they adopted them, in their books, why is this Commission not shown the precise facts as disclosed by the books, regardless of where it may lead or what the consequences were, and you could say "Here is what we have been doing. We are satisfied you should fix your rate on the basis of what these books show."

A When you ask a question really as broad as that I think I can only give you a broad answer to it, that we are asked to produce a statement for certain purposes, a purpose which is different from the purpose for which the books were kept.

Q Why? Why is it a different purpose? That is my question?

A The books are not kept with the thought in mind that you might have to, from the books at any time value the pipe line operations on the basis of the operation finishing at one of several different dates in the future.

[illegible] adjustments [illegible]

[illegible]

[illegible] properly kept and [illegible]

[illegible] efficient account [illegible]

[illegible] they present a true [illegible] for the purpose [illegible] as much as for the [illegible] Company.

[illegible] the question of [illegible] alone, which [illegible] expressed to me [illegible] this [illegible], in [illegible] the rate of depreciation used in the [illegible] warned probably to a considerable extent by [illegible] considerations.

[illegible] for whatever reason [illegible] they adopted them, [illegible] why is this Commission not shown [illegible] as disclosed by the books, regardless [illegible] that the consequences [illegible] and you would say [illegible] to have been done. [illegible] your rate, or [illegible] books show."

[illegible] question [illegible] give you a broad answer to it, [illegible]

[illegible] the books [illegible]

[illegible]

That is one reason where the figures in the books cannot help you.

Q Just a minute, is not that just what the books have done? When $100,000.00 was spent on a piece of equipment in 1927, say, the fact that they take back 10% in 1927 and 10% in 1928 and so on, didn't that mean that particular piece of equipment was finished as far as the Company was concerned in 1937?

A No.

Q What did it mean then?

A It meant that it would be fully depreciated in 1937 but it did not mean that they would cease to have any use for it.

Q It would stand the Company nothing on the books?

A No.

Q It would be fully paid out in 1937?

A That is true. But for that reason they would not discard an asset and say it was no use to them. As witness the old four-inch line. That was fully depreciated on the books.

Q Yes, that is it. Why wasn't that just left out? The Company had fully depreciated that.

THE CHAIRMAN: I suppose what you really want to know is - I thought Mr. Morrison was working on it wasn't he - where it would lead if the Company's books were followed throughout. Is not that a statement you were asked to get?

MR. FRAWLEY: Yes, that is true, Sir, but I wanted to see how far the witness will justify the departure, and there was a radical and wholesale departure from the books of the Royalite Company, which

you in your own judgment, thought you should make?

A That is true.

Q I want to get at the basic underlying reasons for leaving the books of the Company which primarily you would admit are at all times the best evidence?

A I did take all my figures and facts from the books.

Q Yes, but you changed them around, properly and all that?

A Yes.

Q But you changed them around for presentation to this Commission, quite different from what the books would have said if they could have spoken for themselves?

A That is true.

MR. NOLAN: We all did that.

MR. FRAWLEY: Quite.

Q MR. COMMISSIONER LIPSETT: It goes a little further than that. You as the accountant of this Company have for several years been adopting a particular practice of keeping the books, and approving of them as fair between the different departments and the shareholders, and giving, I presume, a clean certificate each year, and now without any explanation so far there has been an entirely different basis adopted from the one which you have been holding out to everybody as the correct one up to date. I am interested personally in knowing what is the reason for the change.

A Are you referring to the assets or the operations?

A Are you referring to the assets or to the operations?

Q To the whole thing. I cannot see on your present basis that a more favourable statement of what the rate should be to-day, but I would like to hear why you justify it at all and on what logical basis from beginning to end you are adopting an entirely different system from the one which has been adopted up to date?

A Well, I think the reason for that is this, that it has never before been necessary to segregate the pipeline operations from the rest of the account as it has been now, and if that necessity had arisen in the earlier years I think that all the points on which we have made changes would have arisen then and probably very similar facts, and the whole method of bookkeeping would have been made.

Q THE CHAIRMAN: That would not have touched your 10% depreciation, would it?

A It might or might not have.

Q The assets might have been distributed with greater care and all that?

Q MAJOR LIPSETT: Was not 10% depreciation taken off, in relation to all other departments?

A In a general way, yes. I mean there are different rates to different assets but in a general way the rate of depreciation was, in the books, has been the rate of depreciation allowed by the income tax department, that is a very common practice.

Q And that has been adopted by you during all these years as proper accounting?

A Yes.

Q I mean your firm?

A Yes.

Q I am not now speaking of you, and that would, would it not,

show that the capital account to-day was substantially less than the figures that appear from this new principle which you are presenting now?

A Yes, a little bit less, oh, in net value, yes, substantially less.

Q Yes, and in consequence of that, the amount of ratio per barrel which would provide for this income payment of 10 or 20%, whatever the figure is, would be substantially less than you are asking us to fix now, would it not?

A Yes, it would, but I would like to say though for purposes of segregating the pipeline from the rest of the company, I think, we have a much truer picture than the books can give you.

Q THE CHAIRMAN: I suppose you say, in effect, this, that while the income tax department, Provincial and Dominion, have allowed 10% depreciation to all companies of this character, you, together with all other companies, have been glad to avail yourselves of it?

A That is right.

Q But that it is the job of this Commission to fix upon a proper rate arrived at under a proper basis?

A That is right.

Q Quite regardless of what basis the companies have heretofore set up?

A That is right.

Q And quite without regard to the considerations which led them to take advantage of what the Governments have allowed as depreciation for income tax purposes?

A That is right.

Q And if we do that we adopt your basis as reasonable and

we will come to the conclusions to which you have arrived?

A That is right.

MR. FRAWLEY: That is what he is saying.

Q MAJOR LIPSETT: And that practically brings us to this, that in 1926 you were fixing the life of this field for this pipeline at twenty years, was it not, you were taking a period of twenty years from 1926?

Q MR. FRAWLEY: Twenty years?

A No, we took ten years from 1936, ten years from December 31st, 1936, twenty-one years from January 1st, 1926.

Q MAJOR LIPSETT: Are you taking the ten year basis for the assets which are put in in 1937 and 1938 or are you taking everything back to 1926?

A Oh, each year's additions are amortized over the period of years between the year they were added and the end of our period, that is the 1926 ones were amortized over twenty-one years; the 1938 over approximately eight years. I am ignoring this difference of nine months.

Q Yes?

A That is the way, and, as I pointed out before, we will, on this same basis, eventually have to amortize all future additions over a much shorter period with a consequently much higher cost each year.

Q Does that not bring it to rather an alarming result, say in 1945, you might turn around and spend a half million dollars and say you have to get it all back from the rate in that year?

A Well, of course, in 1945 you would not be in a position of having to guess eight years ahead again from there, I mean we cannot settle in 1938, to-day, what we may have to spend in 1945.

Q Well, take any year, take 1941?

C5
4

A I think......

Q If you spend half a million dollars in 1941, you say it should be amortized at the rate of 20% per annum?

A That is right if we feel the field is going to be finished in 1946, that would have to be, and I think the time will undoubtedly come when......

Q THE CHAIRMAN: That is the basis, of course?

A When the question of the wisdom of putting in large capital expenditures will become of major importance.

Q Doesn't it arise to-day when the suggestion is made that the rate should cover $300,000.00?

A It is to-day a matter of importance, one which is not fully reflected in the accounts yet.

Q MR. FRAWLEY: No. You said something a moment ago about the year 1936 being related to the termination of the field, but that really is not what the figure 1946 really represents, is it?

A No, as we explain in the report, it is just a calculation where we show.....

Q You are of the same view as Mr. Taylor about that, there is no misunderstanding about that, you have not taken into account the life of the field?

A No.

Q You have arrived at the best judgment that you can as to when you think this company should have that investment paid out?

A That is right, that is right.

Q Sure.

Q THE CHAIRMAN: Mr. Taylor said when he came here the figure of 1946 had already been selected, he brought his mind to bear upon that as the figure for the

[illegible]

year 1946, he brought his mind to bear upon that and he thought it was right, and so it was carried on with, who had selected it before he arrived?

A Well, I am not absolutely sure, it was a figure which was arrived at because we had to have some basis.

Q Well, who arrived, if you know, who arrived at it, who fixed on it, Mr. Taylor says it had been fixed on when he got here?

A I think Mr. Humphries made the decision on it.

Q All right?

A If you mean how it was arrived at......

Q Certainly, someone must have decided on that year?

A How it was arrived at was that we were in the position of having to have some basis for amortizing the assets and the company were not in a position to give us an accurate, or a figure which they felt they could use either in barrels or in years, so as we had to have some figure, this December 31st, 1946, being ten years after the beginning of the field, was picked on as a reasonable one.

Q MR. FRAWLEY: Just, perhaps, one question before we go, you say the company were not able to give you a figure?

A No, at the time when we needed this figure I thought that I was going to get from them a figure at so many barrels, to amortize on, or so many years to amortize over.

Q Yes?

A And they did not feel at that time that they could give me a figure.

Q Had they not been dealing, had they not a ten year figure in mind, from 1938, before you came in at all?

A For the purposes of that statement?

Q For the purposes of a rate case, or anything else?

A I really would not like to say because I do not know enough about what they had in mind then.

Q I mean if they had a figure of ten years from 1938, all you and Mr. Humphries did is move it back to 1936?

A If that is so, but I do not believe that is so.

Q Why did Mr. Humphries begin with 1936 and relate it to the finding of the crude field in 1936?

A Well, I suppose because it is on account of the crude field that this pipeline has become of importance.

Q Anyway, we have it that it was fixed without any regard to the life of the field, we are clear about that?

A That is right, this 1946 statement was, to the best of my knowledge, Mr. Frawley, without reference to the life of the field.

THE CHAIRMAN: Mr. Coultis has a couple of things to prepare and Mr. Maw. Now, is there anything else now from those who are working with Mr. Nolan, so that he can be told to-night what is wanted so that we can get near an end?

MR. FRAWLEY: Mr. Coultis has the Royalite budget.

THE CHAIRMAN: Two or three years' budgets - from 1936 on, and he is also checking those things that he actually needs as against those things that he hopes to need, because of further development in the field.

MR. FRAWLEY: Now, you asked if there is anything else. We were speaking this morning about the Royalite budget, the complete company budget, let us have two or three of those, 1939, 1938, 1937, if they

are available and are on file.

THE CHAIRMAN: Yes, if you have them, Mr. Nolan.

MR. FRAWLEY: And it fits in with what Mr. Coultis is going to do.

THE CHAIRMAN: Will Mr. Burns be next?

MR. FRAWLEY: Yes, Mr. Burns will be next.

THE CHAIRMAN: Any others then except Mr. Morrison on the accounting end?

MR. FRAWLEY: Mr. Morrison on the accounting end, and Mr. Burns. We have finished with Mr. Maw, and Mr. Burns will be on to-morrow.

THE CHAIRMAN: Well, we will then adjourn.

(The Investigation was here adjourned to be resumed at 10:30 A. M. February 3rd, 1939.)

::::::::::::::::

The Province of Alberta

IN THE MATTER OF THE PUBLIC INQUIRIES ACT

—and—

IN THE MATTER OF a Commission, dated the 12th day of October, A.D. 1938, to inquire into matters connected with Petroleum and Petroleum Products

Commissioners:

The Honourable MR. JUSTICE McGILLIVRAY
(*Chairman*)

—and—

L. R. LIPSETT, ESQ.

Session:

CALGARY, Alberta FEBRUARY 3rd, 1939

VOLUME 30

3691 — 3792

I N D E X

E X H I B I T S

. . . .

MR. FRAWLEY: Mr. Chairman, the reason for the delay was Mr. Harvie and Mr. Nolan came to see me to discuss the probable course which the evidence might in their opinion take and it does raise a rather serious question. What they are suggesting now is that we might, the three of us, have a conference with the Commission and discuss that matter.

THE CHAIRMAN: Yes.

MR. FRAWLEY: If you are agreeable that we should. I first suggested that we should wait and carry through with the day but they seem to think, and I cannot disagree with them, that there is some value in having a discussion now, which should not take any more than the next fifteen or twenty minutes.

THE CHAIRMAN: Does it involve these matters on which Mr. Maw has been working overnight?

MR. FRAWLEY: No it does not.

THE CHAIRMAN: Then we might have his evidence.

MR. NOLAN: Yes, there may be a convenient moment to break off during the morning.

THE CHAIRMAN: Yes, we will so arrange it.

. . . .

ARTHUR MAW, having been recalled, examined by Mr. Nolan said:

Q Mr. Maw, you were asked by the Commission last night to do additional calculations and one of them was what, will you please explain to the Commission?

A To prepare a statement showing the proportion of the Royalite Oil Company, Limited assets which were held for the account of the pipeline division.

Q Oh yes, this is on the basis that we sever this pipeline from the remainder of the Royalite Oil Company?

A Yes.

Q As if it is now being severed?

A Yes.

Q As of the 1st of January, 1939?

A I have made my calculations as of September 30, 1938, which would not be very difficult, those were the figures which I had available.

Q That is all right, Mr. Chairman, these are all the actual figures they had, the rest were a projection from September 30th to the end of the year.

THE CHAIRMAN: You say there would not be any, there would not be any appreciable difference.

A There would not be any appreciable difference, a further three months of the amortization of the assets would be the main feature.

Q MR. NOLAN: Perhaps you will give the Commissioners if you will, please, the computation whi9ch you have made?

(DOCUMENT PRODUCED BY THE WITNESS WHICH IS MARKED EXHIBIT "137").

THE CHAIRMAN: What is the difficulty, Mr. Nolan, in coming up-to-date, I mean the Commission is desirous, supposing we accept Mr. Maw's evidence, we do not want to strike a rate as of the 30th of September, 1938, based upon this one, I mean if it is

very difficult or impossible---

MR. NOLAN: Because the books had not been closed to the end of the year and none of us have been able to use these actual book figures from the 30th of September to the end of the year, and all we have been able to do is to agree between ourselves that the three months of which we have not got the figures are what, the projection is the same, in other words we multiply it by 4 over 3?

A Yes, for all operating purposes.

MR. FRAWLEY: In other words any deductions which the Commission may make as from the state of affairs as of the 30th of September, 1938, they are entitled to make as of the 31st of December, 1938?

A That is correct.

MR. FRAWLEY: I was going to say that that would solve this difficulty.

THE COURT: All right.

WITNESS: The actual figures are not available in the Royalite's books, that is for the last three months.

THE CHAIRMAN: This statement you just made last makes it clear.

Q MR. NOLAN: Now will you explain it please, Mr. Maw?

A This is a statement prepared at the request of the Commission showing proportion of Royalite Oil Company Limited assets as at September 30, 1938, held for the account of the Pipe Line Division.

(A). Valuing assets on the basis of 100% amortization of net cash investment in Fixed Assets by December 31st, 1946, and

(B). Valuing assets on the basis of 90% amortization of Fixed Assets by December 31st, 1946.

Q MR. NOLAN: It is under two headings?

A Yes.

Q I see, now take the heading (A).

A <u>A.</u>

Cash Investment in Direct Fixed Assets as per Exhibit A. of Court Exhibit 100, that was our original presentation---

Q Yes?

A

	$1,227,320.41	
<u>Add</u> - ½ of 1938 additions not included therein	237,830.15	
TOTAL	$1,465,150.56	
<u>Deduct</u> - Provision for amortization	386,626.00	
Carrying the net investment		$1,078,524.56
Proportion of investment in utilities assets and service units applicable to the Pipe Line Department, allocated on a direct operating labour basis	324,252,85	
<u>Add</u> - 28.9996% of ½ of the 1938 additions not included therein	2,667.41	
TOTAL	326,920.26	

(Forward)...-TOTAL		$ 326,920.26	
Deduct - Provision for amortization		166,568.47	
	TOTAL		$160,351.79
And Working Capital			150,000;00
	A Total of		$1,388,876.35

Q MAJOR LIPSETT: Is that $150,000 Mr. Maw, is that the sum now which you say the Royalite have, that the Royalite would hand over to the pipeline department, is that what that means?

A That is our estimate of the requirements of the Working Capital in the pipeline department.

Q Is that sum?

A I explain that in a note a little further on.

Q All right.

A Under (B).

B.

You find the following Assets on the basis of 90% of amortization to December 31st, 1946.

Direct Assets		$1,109,502.63
Indirect Assets		176,316.26
Working Capital		150,000.00
	TOTAL	$1,435,818.89

Note 1.

"The investment in Direct Assets represents the amount which would have to be paid to the Royalite Oil Company, Limited, to re-imburse the Company for its net cash expenditures on acquisition of these assets, including expenditures no longer represented by physical assets".

By that I mean if the Royalite were going to sell these assets to the pipeline department on a basis of cost they would expect to be reimbursed for all their cash expenditures in acquiring those assets, including such items as the 6-inch loop.

Note 2.

"In the event of the separation of the Pipe Line Department from the Royalite Oil Company, Limited by the formation of a separate company, the utilities assets and service units would probably remain as assets of the Royalite Oil Company, Limited. It is assumed that, under these circumstances, any charges made to the Pipe Line Company for the use of such assets would include an amount sufficient to reimburse the Royalite Oil Company, Limited for an adequate return on the capital invested therein. The operating expenses of the Pipe Line Company would therefore increase by an amount sufficient to offset the lower return on investment caused by the elimination of these assets from the invested capital".

In other words if we remove the figure of $160,351.79 from the Pipeline Department's assets we would be getting a rate of return on a smaller capital investment but that would be offset by higher operating costs because we would have to pay an equivalent to the Royalite Oil Company, Limited.

Q MAJOR LIPSETT: On that basis would the Royalite Oil Company then have to hand over the cash or allow for it in some way, this $160,351.79?

A Not on the assumption which I have made here. They would

[illegible] if the new lines were going [illegible]
[illegible] assets [illegible] pipeline department or [illegible]
[illegible] they would ex[illegible] preliminary [illegible]
[illegible] necessary steps [illegible]
[illegible] such [illegible] as the e-lines [illegible]

Note 1.

"In the event of the separation of the Pipe Line Department from the [illegible] Oil Company, [illegible] the formation [illegible] a [illegible] servi[illegible] of the pipelines [illegible] under the [illegible] the Pipe Line Company [illegible] include an amount sufficient to reimburse [illegible] Oil Company, [illegible] aggregate [illegible] capital investment [illegible]. The operation [illegible] the Pipe Line Company would therefore [illegible] lower [illegible] the investment [illegible]

[illegible] figure [illegible]
[illegible] regardless [illegible]
[illegible] or [illegible]
[illegible]
[illegible] or the [illegible]

retain those assets.

Note 3.

"Working capital includes only the estimated cash requirements of the Pipe Line Company; no estimate has been made to include any cash which might have accumulated as a result of past operations of the Pipe Line Department after providing for the payment of dividends".

Q THE CHAIRMAN: Why not, why should there not be a calculation as to that if you are going to sell, would the Royalite keep it?

A I would think so. It is past history. It does not enter into the situation today.

Q Why should not their accumulated cash then enure to their credit quite as much as some tools which were allocated to the Pipeline Department?

A I think it would be very difficult to decide how much cash, if any, was for the account of the Pipeline Department, taking into account such questions as divident disbursements in past years. I do not think for the purposes of forming a new company now that the question should properly arise at all.

Q MAJOR LIPSETT: On the basis of this table as regards the utility assets which appear originally for $300,000 on the books, you say according to this table Royalite should get them as of today?

A Should retain them.

Q Should retain them, as of today?

A Yes.

Q And that the Pipeline Division which has already on your

basis paid for them should pay for them again between now and December 31st, 1946, is that not the effect of this table, Mr. Maw?

A No.

Q MR. NOLAN: Mr. Maw, did the Pipeline Department pay for the indirect assets?

MAJOR LIPSETT: That is the whole criticism, that they have.

THE CHAIRMAN: To the amount that is allocated to them in these other statements.

WITNESS: I would prefer to say that they have an interest in the indirect assets.

Q MAJOR LIPSETT: Well they paid for them didn't they, they didn't get them as a gift?

A That again is subject to the consideration as to what cash they had and whether it was their cash or the company's cash.

Q Well am I right in my submission that the Royalite retains that $300,000 odd of indirect assets and you ask that the rate be fixed so as to pay the Royalite for them all over again?

A No. I do not ask for that. Those assets are not fully amortized yet and someone has to stand the amortization yet for the next few years and if the Pipeline Company is going to use them they should be charged something to help pay for this amortization.

Q And according to this also they would pay the Royalite a return, an income return for those very assets.

A For the net value of them today, yes.

Q THE CHAIRMAN: You had some other statements

you were getting, Mr. Maw, had you not.

A You asked me for an estimate as to how much addition to the rate would be required to take care of future considerations which could not be reflected in the accounts at the present time. With reference to that---

Q THE CHAIRMAN: You were to make a statement, comparable to Exhibit "136" were you not?

A An approximate statement.

Q Yes.

A Well with reference to that statement I have been advised by Mr. Humphries that it would not be wise to submit the figures which I got in my calculations becuase they are based on too many guesses and assumptions as to what will happen in the future.

Q Well precisely what did we ask you for?

MR. NOLAN: We were asked, my Lord, may I say, perhaps the witness should say.

THE CHAIRMAN: I think so.

Q MR. NOLAN: Yes, What were we asked for?

A I understood you asked me to interpret in cents the statement which I made that the rate shown on that Exhibit---

Q 136.

A 136 will not fully cover the situation in future years.

Q THE CHAIRMAN: Yes, you say it should be a higher rate for next year?

A That is right.

Q And I wanted to know how much higher and why and you are unable to give the answer, is that it?

A I made a calculation but it had to be based on a lot

of assumptions which I have no right to make. I tried to make them as conservative as possible in arriving at my answer but in view of the fact that they are only guesses as to what will happen in the next eight years I was advised that it would not be sound to present them in cents per barrel.

Q MR. NOLAN: Now give the Commission some idea what those assumptions are upon which this prognostication must be based?

A I based it---

Q What are the things?

A Well the things which enter into it are primarily how many barrels will be carried each year and what additional capital expenditures will have to be made each year in the future.

Q Well now is it the number---

A Without those two facts it is not possible to carry out my calculation.

Q Well is it the number of barrels to be carried in the year 1939 only?

A In every year until 1946.

Q Now why, why do you have to go ahead of 1939?

A Well the operating costs per barrel are dependent each year on the number of barrels carried to some extent and amortization costs definitely are.

Q Well are you saying to the Commission in order to put it down in cents, the increased amortization and the increased operating costs, it would be necessary for you to know the throughput for each of the years from now until the end of the amortization period?

A Yes.

Q You cannot do it for 1939 and isolate 1939?

A No, not without the number of barrels which are going to be carried in 1939.

MR. FRAWLEY: If I may interrupt, estimate them, you cannot do anything else but estimate them.

Q MAJOR LIPSETT: Perhaps if it went down to nothing that that should be taken into account.

A I would not agree with that statement, Major Lipsett.

Q MAJOR LIPSETT: Well if you cannot make an estimate we surely cannot, at least I am putting that to you.

THE CHAIRMAN: Well if the witness cannot we will try.

A Well I made an estimate on that basis but it is not considered advisable to submit it because I am not in a position to estimate myself how many barrels will be carried to make the calculation at all. I had to assume a figure but there is no assumption that the figure is right.

MR. FRAWLEY: Are you finished, Mr. Nolan, about that?

THE CHAIRMAN: Thank you, Mr. Maw. Have you anything, Mr. Frawley?

Q MR. FRAWLEY: Yes, just on that point, as Mr. Commissioner Lipsett put it to you, it had been brought to the Commission by the Royalite Counsel and the British American Counsel, that it is essential to fix a rate which will last for at least say the year 1939 and I thought we had agreed, you and I yesterday, that that is all we were concerned with, was the

rate for at least the year 1939, no more than the year 1939, is that not right?

A I didn't know you put it to me like that because I will agree that the rate must cover 1939 at least, I think it is desirable that it should cover a longer period than that.

Q Well but, of course, it is a rate, like all rates of a public utility, they are subject to change by some regulatory body?

A Yes.

Q But I thought we had agreed yesterday, and perhaps we have not, that it would be possible for this Board to fix a rate for the year 1939, have you overnight brought, had other considerations brought to bear on your judgment and now say you do not think that you at least can assist the Commission in fixing a rate for the year 1939?

A What I was endeavouring to tell the Commission is that the figures which I did prepare on this are based on such wild assumptions that they are not barrel figures.

Q Mr. Maw, this occurs to me, we have now accomplished one half of what we might say is the Commission's task in connection with the pipeline rate, that is ascertain the cost and the rate, you have made a submission as to what a fair and equitable rate should have been say on the last year, of 1938, you told me that yesterday?

A Yes.

Q Now that much is done and completed?

A Yes.

Q So that this part, I am anxious to understand this,

that much of the Commission's task is finished, they can now if they do know the 1938 cost, and the cost of refining and the cost of marketing and the cost of crude, the cost of the raw products, they can now proceed to complete their task, namely find out what the cost of the finished product should perhaps be as of the last day of 1938, you agree with that?

A Yes, I think so.

Q But then the other half of the task, namely, looking to the future, which Counsel here seem to think is important and which frankly at one stage I did not think so important, that for the purposes of fixing the rate which will be, which will guide the Royalite Oil Company or be the Royalite Oil Company's rate for say the whole of the year 1939, then that essentially requires an estimate by somebody of several variables?

A Yes, that is right.

Q Right. Now it occurs to me you might do this, we have done it up until now, assume a throughput on the basis of last year's barrelage, your own figures were 5 and a half million?

A I think 6 million.

Q And then work out a calculation on that, assuming an increase if you like of another million and then going down and assuming a diminution of a million barrels, take a half a million barrels, do it in half millions, drop down to something when the Royalite Oil Company tell you to stop there and then work out a calculation, that would not be impossible?

A No, but Mr. Frawley---

Q Then the Commission would have something?

A It took me six hours to make the calculation on the basis alone of 6 million barrels.

Q Yes?

A And with that I had to estimate additional capital expenditures.

Q Yes, but the company is doing it all the time, is not the company coming in with an estimate that they will require $260,000 for capital additions in 1939, Mr. Coultis did that yesterday, did he not?

A Yes, but what I mean is, I quite agree with what you are suggesting there but it was not possible for me to do it.

Q Overnight?

A Yes.

Q Oh no, no, and far be it from me to prolong this inquiry but for the purposes of assisting the Commission that could be done?

A Oh yes.

Q You could work out a calculation on various assumed throughputs?

A That is true.

(Go to No.3705)

Q And I do not know either that at the moment the Board may have to strike a rate along those lines of some sort?

A I think it is desirable, yes.

Q The through put being so much and the rate is so much and so on, and then the other variables may be dealt with in the same say?

A That is right.

Q Then we are not completely de-railed are we?

A No.

MR. NOLAN: It brings up the other matter we were going to discuss with the Commissioners, and I think you see now, Sir, how it is pertinent and relevant. It is not because we are not trying to help, Sir. This witness, may I say, did not go to bed till three o'clock this morning. We are trying to give the information but it is very diffidult for an accountant or anybody else to proceed and make a calculation unless they know first and foremost how many barrels of oil are they supposed to calculate upon; what diminution of that through put is to be for these several years and the period upon which amortization ends.

THE CHAIRMAN: We have had a good many geologists who have taken the figure of the through put and put a figure on the life of the field. I do not know why accountants should not do the same.

MR.NOLAN: We will take any figures, Sir. If we are asked to take a figure we will take it and make a calculation upon it. There is no difficulty about that is there?

A	No.

MR. FRAWLEY: This is the situation. My friend and I have led some evidence here upon which perhaps the witness could make an estimation and in the last analysis the Board can come to a conclusion about diminishing through put and so on.

Q	THE CHAIRMAN: Mr. Maw, before you retire have you got the actual figure of the capital either as of the 30th of September or as of the 31st of December, 1938, as shown in the books of the Company, allowing this 10% depreciation that has been allowed? Is that figure readily available?

A	It is shown in Mr. Morrison's exhibit.

Q	I gathered it was shown in his exhibit, but is not that with the deductions of this loop. Is that a figure you agree with?

A	The loop has been deducted in the Company's books. Tho loop has been written out of the assets of the Company's books.

Q	So that Mr. Morrison's figure would be an agreed figure on the actual capital as appears on the books as of that date?

A	That is right.

Q	I was not sure whether you had that figure?

A	No.

Q	THE CHAIRMAN: You say Mr. Morrosn's figure. What exhibit?

A	I think Page 23 of Mr. Morrison's exhibit.

MR. FRAWLEY: Exhibit "88".

MR. NOLAN On Page 23 of Exhihit "88", and is contained in the footnote tothat page

which reads as follows: "In the books of the Company at 30th September, 1938, the net value of the pipe line assets is $1,166,197.25, which is the above amount of $1,306,368.48, less depreciation written off amounting to $140,171.23.

MR. COMMISSIONER LIPSETT: Thanks, Mr. Nolan. I did not know whether that was an agreed figure.

MR. NOLAN: That is the book figure.

MR. FRAWLEY: That is the agreed figure.

MR. COMMISSIONER LIPSETT: On that particular basis.

(At this stage there was an adjournment.)

Q MR. NOLAN: Mr. Maw, just prior to the adjournment you were saying what your difficulties were, and the assumptions which you have to make......

THE CHAIRMAN: Mr. Nolan, before you go on. It has been brought to the attention of the Commission that production from the Illinois Field in the United States and evidence with regard to it may have some bearing upon any conclusions which we may come to with regard to the through-put in the pipeline with which we are concerned. That being so this Commission feels that it should take the responsibility of asking Mr. Nolan and Mr. Harvie, who are here representing the Imperial Oil and the British American Oil Company respectively, to produce before this Board witnesses who may give evidence upon that subject. We have heard mention of the names of Mr. McGraw, representing the Imperial and Mr. Gaby, representing the B. A. The Commission says that it desires to hear these two gentlemen or others who in the opinion of Counsel will be able to best assist us as to what bearing, if any, production from the Illinois Field and the marketing of that product in Canada, may have upon the through-put of the pipeline with which the Commission is concerned.

Now we would like to make it quite clear that this request is made by the Commission and that the Commission will take into account that evidence and give such weight to it as it sees fit, quite regardless of what result it may have upon our minds.

It perhaps also should be made quite clear that in making this request we seek to make it clear that no one is coming here of their own volition to give evidence

C2
2

which may be acceptable or objectionable to people engaged in the industry or interested in it in any way.

I think that is all I can say.

Q MR. NOLAN: Mr. Maw, just before the adjournment you were saying something to the Commissioners about the assumptions which you would have to make, one being the question of the assumed through-put?

A Yes.

Q That is so, is it not?

A Yes.

Q And I think that you said that you had made a calculation on the basis of an assumed through-put?

A Yes, I did. I made a rather rough calculation but one which I think brings out the feature which should be regarded.

Q I am sure it will be of some value or benefit to the Commission, what does it result in?

A I made my rough calculation on the assumption that there would be six million barrels carried every year from 1939 to 1946, and that to take care of putting through the six million barrels it would be necessary to make capital expenditures of at least $100,000.00 every year. I used in my calculation the figure of $260,000.00 for 1939, as put forward in the budget by Mr. Coultis yesterday, and on that assumption I found that we would require, to take care of the additional amortization expenses alone, and in additional operating expenses, approximately 2¢ per barrel additional, to provide a return of 10%, 12½% and 15%. Approximately 1¾¢ to provide 17½%.....

Q THE CHAIRMAN: What were those other figures?

A 10% return, 12½% and 15% return; approximately 1¾¢ to

provide $17\frac{1}{2}\%$ return and approximately $1\frac{1}{2}$¢ to provide 20% return. I want to make it quite clear that that was only a rough, approximate calculation, but I believe it to be, to show the true facts in that respect on the basis of six million barrels a year until 1946, and on the basis of $100,000.00 a year capital expenditures, from 1940 to 1946.

Q THE CHAIRMAN: $100,000.00?

A Yes. I would like to add to that that any lesser barrellage than the six million would make necessary a larger increase in the rate and any increase in capital expenditures over and above $100,000.00 per annum would make necessary a larger increase in the rate and that I took into account no additional costs of actual operating, that is, the amortization feature only which is covered in that, the amortization and the annual profits.

(Page 3711 follows.)

Q MR. FRAWLEY: I understand in this calculation you have made you used a figure of $263,000.00 additional capital expenditure in 1939 and $100,000.00...

A No, I used $260,000.00 to make it easier.

Q And $100,000.00 additional in 1940, and in each year down to 1946?

A That is right.

Q Why did you take $100,000.00 in this estimate. Why did you take that?

A I took it because I did not think it would be possible to put 6,000,000 barrels a year through between now and 1946 without spending at least $100,000.00 a year.

Q And why not $260,000.00?

A Well I could have done that but it would not have been quite as conservative a calculation.

Q No, but we want naturally the calculation to be of the greatest assistance.

A My purpose in preparing the calculation was not so much to arrive at a definite figure in cents, as to show that it was a condition which will be effective in those future years, regardless of the amount.

Q Yes. Well now, Mr. Maw, I do not like to be responsible for making you do too much work, but is it too much to ask you to let us have the figurations of that? It would be much more understandable and so that Mr. Morrison could look at it more closely than I have been able to follow it.

A I would prefer to do it a little more accurately than I have done in that, although I think the result will be the same to the number of decimal points that I want in it. But I can, if you like, roughly explain to

you the procedure. It is quite simple.

Q I would like to see it on paper, if you would, and if you can, and if it is not too much work. We have had a great many statements and this seems to be a pretty material one?

A I think so.

Q It is one that the Commissioner this morning was so anxious to have?

A I will make a calculation on that basis then, 6,000,000 barrels a year and $100,000.00 of increased capital expenditures each year.

Q Just put it on a piece of paper is all I mean. Just put on a piece of paper what you have just said to the Commission this morning. I want to see on a piece of paper what it looks like.

THE CHAIRMAN: 6,000,000 barrels? Dr. Boatright made some changes in his calculation.

Q MR. FRAWLEY: I do not want to be bound by any figure that is not just right. What you were trying to take was the 1938 picture as to through put and duplicate that?

A That is what I did. I do not suggest it was right thing to do.

Q No, but take the right figure. Let us be sure, you took the Royalite Oil Company's pipe line through put for 1938.

THE CHAIRMAN: You remember that Dr. Boatright amended his life of 20 years to that of 19 years, because of some misunderstanding about the through put? I would like to get that straightened out before this witness goes to work. I do not want to keep asking

him to make statements.

MR. FRAWLEY: If you take Exhibit "95" and take it home with you and then you will know....

A But why? Because if you want me to do it on the basis of 6,000,000 barrels a year, that won't affect my calculation.

Q I thought your calculation was an effort to duplicate the existing through put with additional expenditures necessary to put through in the next six years the existing through put. The last one we know is 1938?

A No, it was not really that. The purpose of my calculation was to demonstrate that this is a feature which does affect the rate.

Q Mr. Cottle calls my attention to the fact the Royalite through put was in 1938 a total of 5,987,342 barrels, being 5,565,627 barrels of crude and 421,715 barrels of absorption and separator naphtha, or a total of almost 6,000,000?

A That is right.

Q 6,000,000 in round figures?

A This calculation was done entirely on round figures.

Q That may answer the Chairman's suggestion.

THE CHAIRMAN: All right.

Q MR. FRAWLEY: That being so?

A I am not clear just what you want, Mr. Frawley.

Q All I wanted was another statement showing the figuration of the evidence you gave this last five minutes to the Commission?

A In other words, the work sheets to support the 1⅛ cents and so on?

Q Exactly, or even a statement showing what the results were. We have not been producing work wheets?

A These are the results.

Q Let me have that exhibit. That is all I want so I can have something in front of me without looking at the record.

A Yes, I can have until Monday to do that?

Q Yes, please. Not the working sheets.

A I think what you want is really approximately a working sheet.

Q Well maybe Mr. Morrison can tell you in your own language what I want, Mr. Maw?

A Yes.

Q Thank you.

Q MR. COMMISSIONER LIPSETT: Mr. Maw, let me understand. Your figure on your 20% basis showed in Exhibit "120" at 11.34 cents on the basis of 20% return?

A That is right.

Q And that was without salvage, without allowing for salvage?

A That is right.

Q Now in your present verbal calculation giving that 20% return, if that was accepted, there would have to be 1½ cents added to this 11.34 cents?

A Yes. Perhaps I should mention I did give you one, taking into account salvage as well.

MR. NOLAN: Exhibit "113" giving a calculation of 11.38.

Q MR. COMMISSIONER LIPSETT: And your final figure now is 11.38 plus a 1½ cents?

A Plus an approximate cent and a half.

Q Plus an approximate cent and a half?

A Yes, covering that feature only of course.

Q I have that explanation?

A Yes.

Q I was just following the 20% out. That would be a figure, according to you, of 12.88 cents, allowing for salvage?

A Yes.

MR. COMMISSIONER LIPSETT: That is not in the form of an exhibit at the moment, Mr. Nolan.

MR. NOLAN: No, but it will be.

Q MR. FRAWLEY: We may complete some general cross-examination and make some progress. You told me yesterday of the divergences between you and Mr. Morrison. Now dealing with the divergence of the allocation of the indirects. It is a fair statement to make, I take it, both your firm and Mr. Morrison's firm endeavoured to discharge as well as it could the task of, this task of allocating to the Pipe Line Division all of the costs, both direct and indirect, which it should bear, no more and no less?

A That is right.

Q You parted company as to the method you would use in allocating these indirect costs?

A That is right.

Q That had to be, of necessity, something less than an ideal method?

A Yes.

Q The ideal method, it has been suggested to me, would have been, using one of these indirects as an example,

that Mr. McLeod would have had a very carefully kept diary showing from day to day the number of hours he spent on the work of the various divisions of the Company. With something of that sort, so that it showed the whole picture, you have a pretty ideal allocation or division of the indirects?

A Something along those lines, yes.

Q That was not a practical thing, and that of course, had to be forgotten?

A Quite.

Q Well now, you will agree with me that as you said a moment ago, that the Pipe Line Division should only bear, and you do not desire it to bear any more than its proper share of the indirect costs?

A That is right.

Q And the general manager is Mr. McLeod?

A Yes.

Q You agree that some of his time from day to day and week to week is physically spent in the business of say every department of the company?

A Yes.

Q He is the General Manager of all the Departments and he is there to be looked to by the officers of these Departments for guidance and instructions?

A Yes.

Q And there is a department of the Company, a separate department of the Company, the business of which is to drill wells for the Royalite Oil Company?

A That is right.

Q And it is just as much Mr. McLeod's duty to supervise the activities of that department as the activities of

the Pipe Line Department, which Mr. Couotis supervises?

A Yes sir.

Q And the engineers you take out in the field drilling - Mr. Coultis told about the drilling rigs that would be there this year and there were some last year? That is true there were some drilling rigs out last year?

A Yes.

Q The fact is from time to time, as often as is necessary, that the engineers out drilling wells come in and seek Mr. McLeod's opinion and advice and direction about the drilling of the wells?

A I imagine that they would, yes.

Q That is pretty obvious?

A It is a fair assumption.

Q And so while Mr. McLeod is engaged on the business of the Drilling of Wells Department, and if we are anxious to see that the Pipe Line Division bears no more costs, no more propor tion of his salary than is just and fair, why do you say that although the fact is Mr. McLeod spent some time each day, each month and each year looking after the business of the Drilling of Wells Department, that no portion of his salary, not one single cent, should be charged to the Drilling of Wells?

A That is because in our opinion it is not sound conservative practice to capitalize administration expense in an operating company.

Q Just to break up your answer there. Are you satisfied to stop there for the moment?

A For the time being.

THE CHAIRMAN: He would be glad to stop for good, I take it.

Q MR. FARLEY: And so say we all. The fact is, of course, that necessarily as you fail to charge Drillijg of Wells Department with any portion of Mr. McLeod's salary, then 100% of it has to be borne by the other three or four or whatever they may be. That follows?

A That is right.

Q And therefore more falls on the Pipe Line Division than would fall if you allocated some of it to the Drilling of Wells Department?

A That is right.

Q Now you say it is because you do not think it is sound accounting practice to capitalize - what was that expression again, capitalize what?

A Administration costs.

Q To capitalize administration costs. That refers, does it not, to the proper way in which this Company does and should keep its books in your opinion?

A Yes.

Q And Mr. Maw, I take it you do not intend to go any further than that when you use the expression you do not think it wise to capitalize these administration expenses? That refers to the good and proper method in your opinion in which these books should be kept?

A I could go a little further and say if they are capitalized, the administration expenses, you will get a distortion in your annual Profit and Loss Account.

Q Again speaking of what you prepared for the guidance

A. Maw.

of the shareholders of this Company?

A That is right.

Q But now, Mr. Maw, you know we are not here concerned - I was going to say we were not concerned with the sharesholders - but we are not here concerned with presenting a picture for the guidance and information of the shareholders are we?

A Now?

Q Here, before this Commission?

A No.

Q Because you frankly state you had to depart radically from the manner in which these books were kept in many particulars?

A That is true.

Q And you did it because you felt that you had a particular task in hand here, namely the presentation of a proper case to this Commission for its information?

A That is right.

Q And so had Mr. Morrison?

A That is right.

Q Regardless of what is in the books, this Commission must be told how much of all the costs are properly allocated to the Pipe Line Division?

A Yes.

Q That is true, and that being the Commission's task, and ours being the duty of presenting evidence to them to enable them to discharge that task properly, why should they not know for their purposes, regardless of what good accounting in the books might show and dictate, why should not they for their purposes know precisely

how much should be charged to each and every department of the Company, Drilling of Wells Department, Absorption Plant Department, and Pipe Line Department and Gas Scrubbing Department and all of the departments.

A We have endeavoured to show them that, Mr. Frawley.

Q You have endeavoured to show them that?

A Yes.

Q And you have as a necessary part of your submission failed to allocate any portion of the administration expenses of any kind to the Drilling of Wells Department?

A Yes.

Q And still you say that you have presented a fair picture although the inevitable result is to put a greater proportion of the indirects upon the Pipe Line Division than would otherwise be the case?

A That is right.

Q Now dealing with the build-up of the capital assets, the direct capital assets. I put this to you, Mr. Maw, there are two different ways of arriving at the capital structure, generally speaking; the way in which Mr. Hill did it, taking the present day valuation and the way you and Mr. Morrison did it, in building up the moneys spent on the capital assets from the books?

A That is right.

Q Now does not the same problem of the used and useful assets arise, whether you are doing it from Mr. Hill's point of view or an accountant's point of view?

A No, I don't think so. I don't think so because Mr. Hill, I think I am right in saying this, is not really concerned with what it cost to acquire the assets. He is trying

to value them today.

Q When Mr. Hill comes in to value them, he is valuing them isn't he on the one hand for the Company, to see that a fair valuation has been placed upon them so they get a return on a sufficient investment?

A Yes.

Q And isn't he also valuing them from the standpoint of the user or the potential user of the system, to see that not more than enough goes in?

A I think for the purposes for which this report was prepared in this case that is probably so.

Q Yes, because giving Mr. Hill the full benefit of being an honest and reputable engineer, we can, I think, assume he was as much concerned, or should have been, with the situation of the user of the system, as he was of the owner of it, the Royalite Oil Company.

A Yes, I think so.

Q He was not called as a Commission witness, or by anybody but the Royalite Oil Company, but you think he endeavoured to look also at the point of view of the user of the system?

A I would think after he had been informed, as he undoubtedly was, that his evidence would be used for the purpose for which it has been used, he probably did consider interests other than the Royalite's in preparing it.

Q Have you looked at it from the standpoint of the user of the system? That is the question His Lordship asked you the other day, and I think you did give answer. But will you now give me your view? Have you had any regard for the point of view of the user of this system?

A I have latterly, but I would not like to say that it

occurred to me at the time I was preparing the figures.

Q When you were building up the capital structure you mean?

A Exactly.

Q Because it does seem to follow, if I were a user, I would be a little astounded to be asked to pay something in my rates for the retirement of that 6 inch loop, which I certainly am not ever going to see much less get any use of?

A I think you should be prepared to pay that.

Q From the standpoint of the Royalite Oil Company having spent all the money you say I should be asked to pay for it, or pay something in my rates to retire it. For the moment I will grant you that. But how about Mr. Brown down here in Turner Valley who has oil to send through it?

A Yes, that is what I mean., I think it is obvious there are conflicting interests there.

Q Yes?

A We have got to weigh the rights of one against the other to some extent, and I think, doing that, you should include the costs of the 6 inch loop as an investment which the Royalite Company is entitled to get its return from.

Q But it is not very dis-similar from the rate which the customer on a street railway system pays, Doesn't he only pay for the cars and the tracks which actually are in use?

A I do not think so. I think he has to pay enough money to take care of interest on the bonded indebtedness of

[illegible]

the whole system. I may be wrong about that but I think that is probably the basis on which the fare is calculated.

Q If a street railway company had built a street car line out to a park or an artificial lake in some city we are thinking about, and then the lake had dried up, and the street car track was not any good but they left it there. Would the rate structure include that piece of track that had been left out there to rust?

A I would think so. I would not like to give - I mean I think so in my own opinion it would.

Q And you think that the user, that is the man with crude oil in the Valley, take the Imperial Oil. Let us suppose they are completely at arm's length. We have divorced in our minds this Pipe Line Company from the Imperial organization?

A Yes.

Q The Imperial Oil Company has just a certain amount of oil to put through that 6 inch line. You have there now a 4 inch line because you may need that in the busy season. They say we will pay a rate which will look after the retirement of those lines but with respect to a piece of line that is not there at all, that has been scrapped and sold and again you tell me that they should pay for that. It is not used and useful to them is it?

A No, it is not. But I think so.

Q Do you not think there is as much force in the application of the used and useful rule, whether you do it on Mr. Hill's basis or on your basis. Don't you think there is as much force, whether it is much or little,

there is as much force in the one case as the other?

A No, I do not think so.

Q What do you think about my warehouse that I was discussing with Mr. Taylor. It burned down and it was not there at all. But the money had been spent on it. Would you include that in the rate base?

A Yes, on the same condition that I would include the other, that is that it was a prudent investment at the time.

Q You disagree with Mr. Taylor then?

A I am afraid I do, yes.

Q I asked you a moment ago about the street car tracks that were rusting out to the dried up lake, and if you had a pipe line that was still in the ground, but that you had decided not to use, and you pulled up the pump connections, and it is lying out there, not used and useful, and no prospect of it being so, would you include that in the rate structure which you would ask the present day user to pay a rate on?

A Subject to the same consideration, I would.

Q For the same reason?

A For the same reason.

Q Because the money was spent on it?

A The money was prudently and wisely spent.

Q And the situation in your submission is that the potential user must just put up with the investments which have turned out to be bad, and which are of no value to him at all and cannot be used by him. He must pay up on it because the money has been spent?

A Yes. Without that there is too big an injustice on the operator of the system.

Q It is a question of balancing one against the other?

A I think so.

Q In your way of looking at it it is all the one way, really?

A Yes, I suppose it is. But it does not have as big an effect on your producer as it does on.....

Q On your Company?

A On the operator of the system.

Q I am attempting to call your attention to the fact I may be just a poor producer, struggling along under the Conservation Board allowable, and with a difficult market to get into, and your Company has made an awful lot of money during the past ten years.

A That is not the question you are putting to me now. I may be called the poor company struggling along trying to operate the system at a profit.

Q But if you are the kind of company that I have mentioned don't you think that probably it is time that the Commission might take into account whether they will give you a return on that investment which you had made and which as you say works all one way, because I as the potential user get nothing out of it?

A I do not know that that should affect the position.

Q You would prefer to be consistent and say the past profits cannot be looked at for any reason for whatever?

A Have I said that Mr. Frawley?

Q I thought you had said that. Perhaps I am wrong. I will be glad to ask you that. Do you think past profits of this Company can be looked at for any purpose?

A For the purpose of arriving at a rate now.

Q For any purpose in the sense of the work that this Commission is charged with doing?

A Well you see I have been asked to prepare, and have prepared statements bringing in these past profits. But I have done that only at the request of the Commission. I had not, prior to this moment, been asked for an opinion as to whether they should be influenced by past profits.

Q You tell me that. I will ask you for the first time. I thought per aps you had been sked?

A No, I do not think I have.

Q What is your view? We have had everybody else's view but yours. What is your view as to the right, qualified or unqulaified, of this Commission to look into past profits of the Royalite Oil Company, and do more than look at them.....

A I do not think they should take them into account in fixing their rate now. These profits were the Royalite's own to do what they liked with.

Q Do you agree with the statement that I quoted to Mr. Taylor the other day from the text book, that they could be looked at. It would be better if I had the quotation here, but perhaps you recall it?

A I do remember it.

Q When you are dealing with a Company that has had a good experience, no losses or the losses recouped from subsequent profits, that that state of affairs, that fact might be taken into account by the rate making body in fixing a rate of return - in dealing with that element at least, a rate of return on the investment.

MR. NOLAN: I was not sure whether it was the first rate being fixed, or a new rate.

MR. FRAWLEY: No. I think a rate from time to time, because the word used was that the utility has had the experience - you can gather what you like from that.

MR. NOLAN: I gathered from it it was a new rate being imposed upon that utility, after the utility experience.

MR. FRAWLEY: Yes, I think that is fair to say.

MR. NOLAN: I would not like there to be any misapprehension of the consideration to apply to a private enterprise becoming a utility, and having the first rate fixed for it.

MR. FRAWLEY: That is a distinction. It may be a proper distinction to take, Mr. Nolan. I say that frankly.

A I believe that distinction was made at the time wasn't it?

Q I certainly read everything that was in the book relating to it. I said that the utility has had the experience which showed no losses, or if losses, they were recouped by subsequent profits. Mr. Taylor, you will agree, agreed with me. He agreed with the statement in the text book that would be a case where past profits might be looked at. Would you go that far?

A I think he did, didn't he?

Q Yes, he did. Do you go that far?

A I do not believe I have enough experience to give you an opinion on that, Mr. Frawley.

Q Well that is becomingly modest, Mr. Maw.

MR. FRAWLEY: I would like to interrupt to do one thing. I was requested to do it before the Commission rose. Mr. Plotkins has handed me this morning what really is a draft letter to yourself, Sir. It is a statement which he has handed me in written form and he tells me he will put it on the letterhead of his Company and send it to you through the mail or anything you consider right. It is relating to something that transpired between you, Mr. Chairman, and Mr. Plotkins, yesterday, and it occurred to me I might bring it to your attention.

Q THE CHAIRMAN: Something what?

MR. FRAWLEY: A statement you made to Mr. Plotkins yesterday as to his status before this Commission. That is what it has to do with. It seems to me the way to deal with it is perhaps to read the communication to you for the purposes of the record. Either that or I can show it to you and let you say as to whether or not it should be done that way. Or if you would like to discuss it with me during the noon hour, you do not need to deal with it now.

THE CHAIRMAN: The effect of this communication is that Mr. Plotkins desires to act as Counsel and cross-examine all witnesses in connection with this Inquiry, I gather.

MR. FRAWLEY: I take it that is the effect of it, Sir.

THE CHAIRMAN: We will think about it and say what we have to say at 2 o'clock.

(At this stage the Hearing was adjourned until 2 P.M.)

THE CHAIRMAN: Mr. Frawley, we have taken time to consider Mr. Plotkins' application to be given leave to examine witnesses before this Commission, which was communicated to us through you. We are disposed to grant that request because of the fact that he places it upon a ground which may be a sound one, namely that he has a special knowledge of this industry which no counsel could enjoy but in granting the application we want to make it quite clear to Mr. Plotkins that this Commission has been set up, not to advance his business interests, but to arrive at a conclusion with respect to all matters which have been committed to us for inquiry. This I am sure he appreciates as well as anyone.

Secondly we want to make it clear that we are anxious to make progress in connection with this Inquiry and to that end if we thought it would serve well we would sit much longer hours than we are now doing but we are of the opinion that, putting in the time we do, it is quite all the time that can be usefully put in because listening to the evidence we have to listen to and to concentrate upon it and to understand it and to appreciate it, the hours put in are all that we can put in and do justice to the work which we are charged with doing. I mention that because of this, I want it clear to Mr. Plotkins who has made the application that we do not propose to have a duplication of counsel work but insofar as counsel for the Commission is able to bring out the evidence it is not desirable that it should be brought out twice but to the extent

that it is felt by Mr. Plotkins that the subject has not been covered, upon which any particular witness is speaking, we think it right and proper that he should be given an opportunity of doing such questioning as may advance our knowledge through the medium of cross-examination of the witness who may then be in the box. Now you understand clearly what I am putting, I hope Mr. Plotkins, and subject to those considerations which I am sure you will bear in mind, we are going to grant your application.

MR. PLOTKINS: Thank you, Mr. Chairman. There is one point that I believe I either omitted or I did not make it clear in my application. It is not so much the right or the privilege of cross-questioning any witness as it is as I was trying to convey in my application, to cover the facts that Commission Counsel is representing mainly the government and the public, and as the Government also acts and is a factor in the industry and their interests, the Government's interest and the industry's interests at times are at variance, I have asked for the right or the privilege of present- our case, not through Government Counsel but on our own behalf.

THE CHAIRMAN: Yes. Well you mistake the duties of Government Counsel. You say "Government Counsel" and I think your language indicates that that is your thought. Mr. Frawley is appointed by the government, there is no question about that but in his capacity of Commission Counsel it is his duty, and I am quite sure he will bear it in mind and he has hereto-

fore done so, to call all witnesses who may give evidence that has a bearing upon the problem with which we are concerned, no matter with what industry they may be connected, no matter who they may be, so long as their evidence is relevant and may have importance, we want to hear it and you will experience no difficulty in getting Mr. Frawley to call any witness whose evidence may be relevant and may be of importance. Mr. Frawley is not here to serve anyone in particular and there should be no thought that he is. His business is to bring out all evidence which will assist us, no matter where that evidence may point or who is giving that evidence, but all I am saying to you is this, as you are given the privilege so will you I assume take your responsibilities seriously and not unduly lengthen the proceedings which are already quite long, as you know. That advantages no one. We seek to avoid duplication but if you have special knowledge which permits of special skill either in bringing out evidence or in cross-examining witnesses who are giving evidence you are given that privilege. Now you cannot ask for any more and I trust that you will collaborate with those who are trying to get this work done, as I am sure you will?

MR. PLOTKINS: Yes.

MR. FRAWLEY: Mr. Maw.

....

ARTHUR MAW, having been recalled, examined by Mr. Frawley said:

Q MR. FRAWLEY: Mr. Maw, you were saying to me this morning that in your opinion the money which the company invested in the 6-inch loop which was later taken up, less the amount of recovery which was obtained, was properly included in the capital structure, in your opinion?

A That is right.

Q And the same may be said of any items of a similar nature?

A That is right.

Q Now it is proper to regard the 6-inch loop transaction as a capital loss I take it?

A Yes.

Q And that capital loss along with all other capital losses would ultimately be charged to the profits?

A Yes.

Q Ultimately be charged to the profits over a period of years, which years are selected from the life of the asset; selected?

A That is right.

Q Selected within which to retire them?

A That is right.

Q Then we have it that this capital loss would ultimately be charged to the profits of this company, then it ultimately becomes an operating loss?

A Yes, that is true.

Q That is true, and as a matter of fact this company so regarded it as an operating loss?

A To the extent that it was charged in their profit and loss account for the year, yes, that is true, but it

was definitely shown as a loss arising out of capital assets.

Q Oh yes, but it was regarded by, in the recordings of the company as virtually an operating loss?

A That is right.

Q For all practical purposes?

A Yes.

Q Now naturally that leads me to this, you say that this Commission cannot look back upon the operating losses, upon the operating profits I mean?

THE CHAIRMAN: Should not.

Q MR. FRAWLEY: Should not, should not in your submission look back upon the operating profits?

A No, they should look back on the operating expenses but I do not think that the rate that they decide on should be influenced by the operating profits of the past.

Q Well I thought this morning you told me that for no, purpose, for no purpose, should this Commission pay attention to or have regard to, in your submission, the operating profits of this company in the past?

A That is right, but that is the profits as distinct from tho expenses, you see the expenses of the past are the only guide to the expenses of the future.

Q Well the expenses of the past it would seem to me are a guide whether there are profits or losses, revenue against expenditures made profits in the past?

A Yes, but that is different, that is different.

Q That is a fact, is it not, I mean how far do you go then when you say this Commission should not in your submission go back into operating profits?

A I said that they should not in my opinion be influenced by profits or losses in the past but they must consider expenses in order to have some basis for estimating future expenses.

Q Well at the moment that seems to be a little confusing also, let us see, how much we have definite, the facts that this company made profits in the past is in your respectful submission no business of this Commission?

A Yes.

Q And the fact if they had made losses it would still be in your submission not the proper business of this Commission to go into that?

A That is right.

Q And I mean there is no sense in even looking at them unless they are going to make some application?

A That is right.

Q Of the information?

A Yes.

Q So that they must not look at losses or profits which have happened to this company in the past?

A That is right.

Q But you tell me that this was essentially, when you reduce it to its constituents, the 6-inch loop transaction?

A Yes.

Q Was essentially an operating loss?

A That is right.

Q Now why, when you go back and look at that operating loss, bring it up, set it up, capitalise it, put it into the rate base, why will you not allow me, if I were the Commission to go back and take those profits?

A I do that because to arrive at a rate base we must take into account the money which the company has properly spent in acquiring its capital assets.

Q We come back to that, we are forever and forever coming back to that?

A That is right.

Q As your starting point and finishing point?

A That is right.

Q I am only pointing out, Mr. Maw, I am suggesting to you that there is a serious and vital, to me a vital inconsistency there?

A I do not see it, Mr. Frawley.

Q You appreciate that that is running through my mind?

A I see exactly what you have in mind.

Q Yes?

A Yes.

Q Because you say, why should you treat capital losses, which you were kind enough to say, not kind enough, but frankly say, is in reality just an operating loss when you get down to the costs eventually?

A Yes.

Q So we have that much clear now, and Mr. Taylor told us last week there was no reason for dealing with capital profits in any other way than you dealt with operating profits and no way of treating capital losses in any other way than you dealt with operating losses, do you agree with him?

A Yes.

Q Then I say to you, why on the one hand do you say they cannot have any regard to operating profits, when you have deliberately gone back into operating

losses and brought one of them out, set it up and want it to be amortized?

A Well I have set it up only as an original investment of capital.

Q Yes, and that is, without being discouraging about it, that is the only answer you can give me about it?

A That is right.

Q Now in fear and trembling, Mr. Maw, I am going to ask you a couple of questions about that $121,000, that figure---

A In Exhibit "109".

Q It is Exhibit "109", Mr. Maw, I understand that the $121,000 is the sum total, if I may use that expression, of monies invested by the pipeline division in indirect assets, so far so good?

A If you choose so to regard it.

Q Can it not properly be regarded as what amounts to the capital invested, the money invested by the pipeline division in indirect assets?

A I would prefer to put it another way, if I may, I would say that it represents perhaps better the annual amount allocated to the pipeline department of the investment by the Royalite Oil Company, Limited, in indirect assets.

Q The figure for 1938, to take one, of $5334.82, is the resulting fignre?

A That is right.

Q Which you have worked out by applying your percentage?

A To the additions for 1938.

Q It does not, does it bear any relation to the $263,500

which, or leave out the contingency, no, I will have to leave it in because there is no other grand total?

A Yes.

Q Does it bear any relationship to the $263,500 which Mr. Coultis says he, and he is the pipeline division, he is going to spend in the year 1939 on various kinds of assets, direct and indirect?

A Direct only.

Q Those are only direct?

A Yes.

Q Only direct?

A Yes, the Exhibit is headed on the front page "Pipeline Division", is it not.

Q Pipeline Division, yes, physical capital budget, it doesn't say direct or indirect?

A Well those are direct.

Q Well the small tools and equipment for $2600 on page 3?

A Those are assets which if they are purchased in accordance with that budget will be in the direct classification here, in other words Mr. Frawley these 263 odd thousand there corresponds to the 1938 figure of $475,660 and in no way to the $5364.82 which you mention.

Q Those are going to be nobody's property but the pipeline Division?

A That is right.

Q If the absorption plant wants to use one of those small tools they will go and buy their own so far as Mr. Coultis is concerned?

A That is right, that is right.

Q Those are not used by various branches?

A Oh no, they are pipeline direct.

Q But we have things like that in the indirect assets, have we not?

A Oh I would think so.

Q Forge and machine shop is one of them?

A Yes, but they do not appear on that Exhibit of Mr. Coultis' at all.

Q Well let me understand this, supposing there was to be some additions to the forge and machine shop in 1939?

A Yes.

Q Who would make the expenditures?

A The Royalite Oil Company.

Q All right. Now perhaps we are getting somewhere---

A No look here, they would not appear in that budget.

Q They would not appear at all?

A No, not in that statement of the budget, they would appear in the Royalite.

Q But not in this Exhibit "134"?

A No.

Q They would appear in the Royalite budget?

A Yes, of course of which that pipeline is a part.

Q Yes, but a separate part?

A Yes.

Q And if the Royalite Oil Company wanted to make some additions or buy some equipment for its forge and machine shop, they would make that expenditure?

A Yes.

Q They would own the assets completely?

A Yes.

Q But they simply give Mr. Coultis the privilege of going and using them?

A That is right, that is what happens in practice.

Q Then the $5,334.82, being the percentage of utility assets in the year 1938, is not $5,334.82 spent by Mr. Coultis in indirect assets that year?

A No.

Q No?

A No.

Q That is one thing it is not, in any event?

A No.

Q So that we do not have two comparable things, direct and indirect, that is true is it not, I mean representing money invested and money spent in the pipeline division?

A No, I think that is right.

Q Because on the direct side you simply add up all the things which Mr. Coultis has been spending since 1935 and that you say is the total of the direct capital assets?

A That is right.

Q And that is a fairly simple thing to arrive at?

A You bet, yes.

Q That is what you and Mr. Morrison agreed on a long time ago, is that not so?

A Yes.

Q It is this other thing we have not agreed on yet, so that is a very simple thing but there is nothing comparable to that, Mr. Coultis does not go out each year and buy some direct assets?

A No. I think the only thing that is comparable is if

you look at the pipeline division as an entity today, it is quite obvious that any additions to its direct assets in order to function properly, it must either own or have access to those indirect assets.

Q Yes. Mr. Coultis, like all other departments, has access to the indirect assets?

A That is right.

Q Then let me put this to you now, you said this morning of an exhibit that it was comparable, yes, Note 2, of Exhibit "137"?

A Yes.

Q That a very good way of regarding this would be for the Royalite Oil Company as a separate entity to own all of these indirect assets and Mr. Coultis come along and for tho privilege of using them as much as he wanted to, taking them away for a day or a week, and bringing them back to the warehouse and shop and so on, to pay a charge, an annual charge for that?

A That is right.

Q As a matter of fact, if that had been done there might have been no use today, - then you would have simply, you would then simply be looking for the correct amount to arrive at as a fair annual rental charge, to put it that way, that Mr. Coultis should pay to the Royalite Oil Company for the purpose of using the Royalite Oil Company's forge and machine shop and so on?

A That is right.

Q Now that you think would have been a first-class way of arriving at what the proper cost, which should be borne by the pipeline division, should be?

A I think that would be a good way.

Q And the drilling of wells department uses the forge and machine shop too?

A Yes it does.

Q And what amount would you put against the drilling of wells department in this theoretical annual rental charge, and the answer is "none at all"?

A Just a minute.

Q All right, I should not answer for you.

A This annual rental of the assets is what you are talking about, not the charges to the operations in the course of the year---

Q Wait a minute?

A That is the operating, we are not discussing the operating function of the forge and machine shop as such,

Q No?

A Just the annual cost of maintaining such an asset in the company.

Q Well you say they do not own any separate indirect assets, do they, the pipeline division?

A No.

Q It is not practical that they should duplicate all that indirect equipment?

A No it is not.

Q All those indirect assets?

A No.

Q So to me at any rate it seems a simple way to pick out, to say that they should pay something for the use, the extended use, free access to these indirect assets?

A That is right.

Q And that seems a sensible way to look at it?
A That is right.
Q And again we have in mind that we do not want our pipeline division to pay any more nor any less than a fair charge that they should pay?
A That is right.
Q All right, and it is being used, these indirect assets, forge and machine shop, is being used by each and every one, I take it, of the departments?
A I think so.
Q From the beginning to the end?
A Yes.
Q I do not suppose there is a single one of the departments that does not use them?
A Probably not.
Q But under your system of allocating these indirect assets you would not be able to find any place in your picture for an annual charge to be assessed against the drilling of wells department for the use of those indirect assets?
A No, but I have quite a large annual charge against the operating of wells.
Q Oh yes, you pay the wages, the crew that drills the wells?
A It is the operating, the operating of the wells department which should stand the administration if any.
Q Not the administration now. I am not talking about administration?
A In the drilling of wells.
Q Well that come out of the administration and over into

the indirect assets, Mr. Maw, I am talking about this forge and machine shop?

A Yes.

Q And we can see it in part going right out into the drilling of wells department on Monday, that is right?

A Yes.

Q And we can see it coming back on Monday night and going out to Mr. Coultis' department on Tuesday?

A Yes.

Q We can picture that easily?

A Yes.

Q But under your setup Monday pays nothing and Tuesday does pay for the use of that equipment?

A Not under my setup, the operation will pay for Monday, the operating costs for the year will include Monday's cost.

Q Now you are talking about the operating of wells?

A No, I am talking about the operating costs in the profit and loss account. They will bear these expenses of the forge and machine shop, these more or less nebulous expenses due to owning the thing, that will be charged to the operations of the company.

Q But it will not be charged against the drilling of wells?

A It will not be charged against the drilling of wells.

Q All right, now I do not want to lose you, it is hard to follow you through these accounting words?

MR. NOLAN: I wonder, Mr. Frawley, if we could find out first, whether the forge and machine shop is one of the indirect expenses allocated by us?

MR. FRAWLEY: I think we could find that out. The forge and machine shop, I have been taking, I thought I had one that we could agree on. I see my friend is making some objection to it, so I might take something else. Mr. Morrison has used the machine shop as an indirect asset, he is using the residual balance as an indirect expense?

A Yes, he is using the assets.

Q Does his treatment of it differ radically from yours?

A As regards the assets, no.

Q Is it quite all right for you to follow me through this discussion, as I use the forge and machine shop as being typical, or is there a better one, the fuel-gas line perhaps is better, is it?

A I think perhaps it would be. I do not think relatively it would make much difference but we will take the fuel-gas line.

Q I mean if Mr. Nolan has some reason for objecting?

A If I may say so, we are rather in difficulty on switching from assets to operations. One time you speak of the operations of the asset and next the operation of the indirect operating expenses, right now you are discussing the assets.

Q I am talking about, there is a charge arising out of the ownership of the assets, is there not, that is called amortization?

A Yes.

Q There is that anyway?

A That is right.

Q So we have that much?

[illegible] think we could find that

[illegible] rge and machine shop, I have been talk[illegible]

[illegible] and one that we could agree on. I see

[illegible]

[illegible]

[illegible]

[illegible]

[illegible] ing [illegible]

[illegible] is [illegible] differ made [illegible]

[illegible]

[illegible] is [illegible] all right for you to [illegible] me that [illegible] is

[illegible] sion, [illegible] the forge [illegible] shop [illegible]

typical, [illegible] is [illegible]

[illegible] in [illegible], is it?

[illegible] perhaps it [illegible]

[illegible] difference but we will take [illegible]

[illegible]

[illegible] reason for objection?

[illegible] in [illegible] or satch-

[illegible] time you [illegible] of the

[illegible] competition of the

[illegible] you are dis-

[illegible]

[illegible] out, there is [illegible]

[illegible] asses, [illegible], that it

[illegible] them

[illegible]

[illegible]

[illegible]

[illegible]

A Yes.

Q Then we will grasp to that and cling firmly to it now, there is that much anyway?

A Yes.

Q You say you do not charge up against the drilling of wells department any annual charge to amortize the indirect assets?

A That is right.

Q But you do charge up against the pipeline division an annual charge to amortize the indirect assets?

A That is right.

Q Right. Now we have those two basic statements and you, I thought I might make it more clear if we translated this into an annual rental charge which would be sufficient to take care of all those things, would it not, amortization and everything else?

A That could be done.

Q Yes, and it may not help it a bit, I thought perhaps it did but let us deal with this annual rental charge, you would not have anything in your annual rental charge to the drilling of wells department for the carrying of the amortization would you?

A No charge would end up in the drilling of wells department for amortization or rental of those assets.

Q Would end up, then that is the end of it?

A By that I mean that such charges as you might consider proper to go to the drilling of wells would under my system be absorbed in one of the operating departments.

Q But there is a charge during that drilling of wells, from the beginning, of the spudding in until it is com-

pleted, perhaps for six months of the twelve months' period, perhaps it is a drilling well for six months and it is an operating well for six months in any given year?

A Yes.

Q But you say that during those first six months they can use all the fuel-gas lines they like, all of the forge and machine shop that they may want to use and there is not any charge against them for the retirement of the investment which the company has in those assets?

A That is right.

Q Although directly it turns from a drilling, the very day it changes from a drilling of wells deparment to the operating of wells deparment all those charges are made?

A They are made anyway, Mr. Frawley. The charges are there, they have to be absorbed somewhere but whether the well is drilling or whether it is operating the operation will stand the expense, not the capital value of the well.

Q Yes, ultimately, I know, ultimately there is a difference, but whether it is from day to day, at the end of the year you do not put against that first six months when that well was drilling, any portion of those charges which you and I have been talking about?

A No.

Q No, but you do at 12 o'clock noon on a certain day that they suddenly, when it suddenly becomes an operating well, and that to you makes all the difference

and then it begins to stand those charges?

A You have not quite got the point, Mr. Frawley. The difference is not quite as clear-cut as that.

Q No?

A Because you see the operating departments of the company are standing that expense both before and after the well comes into operation.

Q Yes, but some other department is standing it during that first six months in the drilling of the well, and not the drilling of wells department?

A That is right.

Q And that where it all goes over to the operating department there is a reallocation in any event and that operation, call it the operation from the beginning, but the last six months of the operation in that year, namely its producing period, there is a big change in the allocation of costs, to you?

A Yes, I must be quite clear about this, you are discussing the methods used on our Exhibits only, are you not, you are not discussing the method employed by the company.

Q Oh no.

A Just on our statement.

Q Yes, just what you did?

A Well I think I have given you the right answer.

Q And these statements - you are agreeing then knowingly to these statements I am making to you?

A Yes, I think so.

Q All right, let us frankly face this great divergence. Really, all that amounts to is, is it not because you have in your mind as an accountant a rigid distinction between capital and income?

A Yes, that is so.

Q And you have in your mind the fixed idea - a perfectly good idea from an accountant's point of view advising this company - in the keeping of its ordinary records from day to day, that there should not be charged up against this drilling operation any overhead?

A That is right.

Q Because you say it is a capital operation?

A That is right.

Q And for that reason and only that reason you say "We do not want anything charged up against that Drilling of Wells Department of any part of this overhead charged up against that"?

A Yes, that is right;

Q It is a capital operation and it is basically unsound to capitalize expenditures, as you say?

A That is right.

Q Very good. That may be for this company from day to day and year to year but have you not got a completely and totally different duty in submitting the picture of these costs, and the segregation of them, to this Commission?

A No, I don't think so.

Q You say not?

A I think the same rule should apply.

T3
2

Q Your system leads you to this, leads you to the necessary conclusion that this Commission is not concerned with how the overhead was actually spent and used up during that Drilling of Wells period. You have to say that, haven't you?

A Yes. We are presenting the picture to them of how we consider it was spent.

Q No. Do you not say that this Commission - you are not giving this Commission any portion - you are not putting to the Drilling of Wells department for the information of this Commission any portion of the overhead expense?

A That is right.

Q So that you must say that this Commission is not concerned then with knowing how much overhead was used up in connection with the drilling of that well?

A Well, in our opinion, none was.

Q None was. All right. How can you say that none was? How can you say there was no overhead expense used up if we find Mr. John McLeod actually out walking around that drilling well and saying "I want this done" and "I want that done"? How can you say in face of that as a fact that no part of that overhead was used up? Mr. McLeod's time was used up. Mr. McLeod's brains and ability were used up, were they not?

THE CHAIRMAN: Utilized, I would say.

Q MR. FRAWLEY: Yes, utilized, without being used up. Self-replenishing.

Q Weren't they utilized?

A They were utilized.

Q You show me where I am wrong?

A In our opinion, they should be charged to operations of the company.

Q But so far as this Commission is concerned, striving to parcel up, as I believe they are striving to divide up Mr. McLeod's salary so that every portion of this company will bear its share and naturally see we will not bear any more than our share?

A Yes.

Q Then why are they not concerned with finding out how the overhead was utilized?

A We are endeavouring to show the Commission where that overhead should be applied.

Q You say Mr. McLeod's salary, it is this that Mr. McLeod's salary would still be paid, even if there were no wells drilling?

A That is right.

Q Couldn't you say the same thing and reduce it to the absurd, that Mr. McLeod's salary would be paid if there was no absorption plant being built?

A Yes, absolutely.

Q And Mr. McLeod's salary would be paid if the pipeline suddenly collapsed into the earth and no more oil goes through it?

A For a time, at any rate.

Q And Mr. McLeod's salary would be paid if Mr. Milner's company stopped buying his gas for the City of Calgary. We have Mr. McLeod's salary going on even though there is nothing being done in the company?

MR. NOLAN: Mr. Milner's salary would not be going on.

A May I just put in this Exhibit now?

Q MR. FRAWLEY: Yes.

A I think this fairly definitely bears on what you have been asking me.

Q I hope it clears it all up for us.

A I think it should.

Q MR. NOLAN: Describe it, Mr. Maw?

A This is "Handling system of accounts for pipelines prescribed by the Inter-State Commerce Commission in accordance with Section 20 of the Inter-State Commerce Act, first revised issue, effective on January 1st, 1935. Page 12 of this booklet, to which I am referring - shall I read the part I am concerned with?

Q Yes, if you like.

(BOOKLET IN QUESTION IS NOW MARKED EXHIBIT "138".

THE CHAIRMAN: You made particular reference to a certain page?

A Page 12.

Q MR. FRAWLEY: Any other way of describing it, by number?

A I am going to read subsection (A) of paragraph 36. Cost of construction.

Q Yes. I think if you read the whole paragraph?

A Yes, I will read it all.

"36. Cost of construction. - The cost of the construction of property chargeable to the carrier-property primary accounts shall include the cost of labor, material and supplies, special machine service, transportation, contract work, protection, injuries and damages, cost of privileges and permits, taxes, rent, interest during construction, and other analogous elements in connection with such work, including costs for preliminary work such as sinking test holes or making soundings for buildings and other structures. (See also instruction 31-C.)

The several items of cost here referred to are defined as follows:

(A) 'Cost of labor' includes the amount paid for labor performed by the carrier's own employees. The salaries and expenses of engineers and other officers specifically assigned to construction work shall be included in the accounts appropriate for the cost of the property in connection with which their services are rendered. No charge shall be made to these accounts for the pay of operating officers and members of their staffs who merely render service incidentally in connection with construction work."

There is a note to paragraph A.

"Note.- The office and traveling and other personal expenses of officers and employees shall be included in the accounts to which their pay is chargeable, except that traveling and incidental expenses incurred by operating officers and members of their staffs while rendering service incidentally in connection with construction work shall be included in the cost of the work upon which they are incidentally engaged."

Q It is difficult to just appreciate what all this means.

A I have also, if I may put it in, another Exhibit dealing with the same subject.

Q Yes?

A This is a book "Financial Examinations" by F. W. Thornton.

Q Who is he?

MR. FRAWLEY: Is he described in the fly-leaf? No, Mr. Thornton is a very modest man and he does not describe himself.

THE CHAIRMAN: The witness no doubt knows, if he is going to use it.

Q MR. FRAWLEY: Do you know anything about Mr. Thornton?

[illegible]

Q THE CHAIRMAN: You subscribe to the views expressed by whoever wrote Exhibit "138", do you, Mr. Maw, that pamphlet?

A Yes.

Q Now, you are reading from a book written by one Thornton, did you say?

A Thornton.

Q Are the views therein expressed yours? Do you agree with what he says?

A Yes.

Q And who is he?

MR. HUMPHRIES: He is a certified public accountant in New York, who has written several accounting books.

A He does not say in his book who he is.

THE CHAIRMAN: Well, you may read it anyway. You are saying he expresses your view in language that is his own, I take it, Mr. Maw?

A Yes.

Q All right, and using it as a different method of expressing the views that you hold?

A I am using it merely as additional evidence to bear out the correctness of the method which we have used in allocating indirect expenses.

Q Well, that is your purpose, no doubt. But in reading that to us are you reading that which expresses your own views?

A Yes.

Q You see, that gentleman is not before us and has not been sworn?

A No, I see. This is my view as well as his.

Q All right, you may read it.

A Pages 102 and 103. This is an extract from a paragraph headed "Construction by Company's own staff." "Capitalized cost of buildings, machines and other equipment constructed in this way contains all the usual elements of cost - material, labor and overhead - but no margin of profit may be added. If work of construction is done concurrently with ordinary operations it is not good practice to capitalize such an amount of factory overhead that the manufacturing costs of the ordinary product are reduced below the normal amount per unit in periods in which no construction is done."

MR. COMMISSIONER LIPSETT: Do you include overhead there as one of the things that should be charged? In the first sentence?

A If work of construction is done concurrently with ordinary operation it is not good practice to capitalize such an amount of factory overhead that the manufacturing costs of the ordinary product are reduced below the normal amount per unit in periods in which no construction is done.

Q But in the sentence before that. They say capitalizing part of the overhead, do they not?

A Material, labor and overhead, and it qualifies it with this second paragraph.

Q Yes?

A On page 103 it says: "So soon as the work is completed capitalization of overhead ceases; it ceases also as soon as operation begins, whether the construction work is then complete or not."

(FINANCIAL EXAMINATIONS BY F. W. THORNTON IS NOW MARKED EXHIBIT "139".)

Q MR. FRAWLEY: Let me just follow it up, Mr. Maw. I understood some days ago that fundamentally the reason you did not allocate any part of the overhead to the Drilling of Wells Department was because it was unsound in your opinion to capitalize that kind of expense?

A That is right.

Q And then there is some different connection between that proposition and the proposition that it made no difference in any event because that expense would go on just the same, and Mr. McLeod's salary was named as an instance.

A In makes no difference on the final winding- up, the last day of operation of the project. But in all intervening periods it will make a difference to the operating expense.

Q But as administration overhead, you do not charge any part of it to the Drilling of a well because you say Mr. McLeod's salary will go on in any event, and it is not a material expense?

A That is right.

Q That is your proposition?

A Yes.

Q And why not say, equally soundly, it strikes me that way, equally soundly, do not charge anything to Mr. Coultis' department because Mr. McLeod's salary will go on just the same. That does not advance us. Or how does that advance us?

A Well, Mr. Coultis' department is an operating department and should properly bear the operating expenses.

Q In the books of the company?

A And for your purposes too, Mr. Frawley.

Q For the purposes of this Commission?

A Yes.

Q Well, am I not right in saying that Mr. Coultis' salary will go on just the same?

A Yes.

Q Then why charge any part to the pipeline department?

A Again, because the pipeline department is an operating department and as such should stand the operating expense.

Q I am really trying to grasp it and understand it if I can. There is some remarkable difference between what you call an operating department and a capital department?

A Yes.

Q Well, to me, to the ordinary layman, it is just two working departments of this company. Men are going out into that department to-day to work and men are going out to that department to work and Mr. McLeod is supervising the activities of both groups of men?

A That is right.

Q What difference in the world does it make to this Commission, who are only seeking to put a proper share of the costs against all departments, that you give them the magic name of "Operating Department" and "Capital Department"? What is the point about that?

A The difference is mainly this, that any department which is solely for the purpose of making capital expenditures, the funds of the company are being invested in an asset. In an operating department the department has revenue and expenses and makes a profit or loss. There is a very big difference between the two, in my opinion.

Q In the books of the.....

A In actual practice.

Q In the books you have a very handy place to put your receipts and expenditures?

T3
10

A. Maw.

A Yes.

Q And in the capital department it is a one-sided affair of the ledger proposition. There is nothing to put in the expenses?

A That is right. You can only add the expense to the cost of the assets.

Q Is it not your difficulty that as an accountant, as a good accountant, to set up these things in the books of this company you are unable to find a place to put it in the capital department?

A Well, it is not really a methodical difficulty like that, Mr. Frawley. It is that it would not be sound to put them there.

Q Men are working in each department?

A Yes.

Q Equipment is being used in each department?

A Yes.

Q Machinery belonging to the company is wearing out in each department?

A Yes.

Q The general manager's time is devoted to the operations of each department?

A Yes.

Q The time of the chief accouhtant is devoted to the business of each department?

A Yes.

Q And electricity for the light of the Calgary office is being burned up for the convenience and assistance of both departments ?

A Yes.

Q And still you say it is not proper for this Commission to

know, regardless of the label you put on the department - it is not proper for this Commission to know what portion of these overhead expenses, indirect expenses, are borne by all of these departments regardless of the label they bear?

A I have given you in evidence a document which purports to show the proper method to be applied in the case of pipelines.

Q We are coming to this Exhibit "138"?

A That is right.

Q But short of Exhibit "138" you say that it is not the proper business of this Commission to find out whether all of these costs go to all of the departments?

A That is right.

Q Well, now, these are some general instructions in Exhibit "138" prescribed by the Interstate Commerce Commission in accordance with section 20 of The Interstate Commerce Act. Section 20 of the Interstate Commerce Act is quoted, in part at least, in the opening part of the pamphlet. It is only an extract, as a matter of fact. "Any person who shall willfully make any false entry in the accounts of any book of accounts or in any record or memoranda kept by a carrier, or who shall willfully destroy, mutilate, after, or by any other means or device falsify the record of any such account, record, or memoranda, or who shall willfully neglect or fail to make full, true, and correct entries in such accounts, records, or memoranda of all facts and transactions appertaining to the carrier's business, or shall keep any other accounts, records, or memoranda than those prescribed or approved by the Commission, shall be deemed guilty of a misdemeanor,

and shall be subject, upon conviction, in any court of the United States of competent jurisdiction, to a fine of not less than one thousand dollars nor more than five thousand dollars or imprisonment for a term not less than one year nor more than three years, or both such fine and imprisonment: Provided, That the Commission may in its discretion issue orders specifying such operating, accounting, or financial papers, records, books, blanks, tickets, stubs, or documents of carriers which may, after a reasonable time, be destroyed, and prescribing the length of time such books, papers, or documents shall be preserved." Those instructions seem to be founded upon that provision in the Interstate Commerce Act.

MR. NOLAN: That is only one small portion of it.

Q MR. FRAWLEY: You will agree, of course, Mr. Maw, that our problem - well, we would not have a problem at all except for the fact that this pipeline division is run simply as a department of the whole company which carries on other business?

A We would not have these accounting problems.

Q Yes, we might have other problems, but this problem you and I are worrying about at the moment, we would not have, would we?

A No.

Q You, of course, are now talking about pipelines. I suppose you will agree that the pipeline ....when they refer to a carrier here, these rules for the guidance of the carriers, those are, you will agree, separate operating companies?

A Probably.

Q I suggest to you that these people would still have the

same problem that we have if they had two or three departments in the same company?

A I think they would still be governed by these instructions.

Q But this does not in any sense relate to the division of costs as between departments, does it?

A I think it does. As between departments, no, that is referring specifically to the application of administration costs.

Q Costs of labor, costs of construction. It talks about salaries of operating officers who merely render service incidentally in connection with the construction work?

A That is right.

Q You would not say that Mr. McLeod's labors were performed, insofar as the Drilling of Wells Department is concerned, incidentally to the drilling of wells, any more than incidentally to all other departments, surely?

A I would say Mr. McLeod is primarily manager of the operations of the company and incidentally he would look after the capital expenditures to some extent.

Q Now, Mr. Maw, we will have to discuss that. One of the main things about this company, is it not - I mean to say Mr. Taylor's Exhibit "100" with which you no doubt associate yourself, told us that this was primarily a producing company, that is right?

A That is right.

Q So that I would think his duties, if they are incidental to anything, are incidental to the other departments and that they are primary to the drilling of wells; the production of oil?

A The production of oil. That is right.

Q Well, you cannot get much production until you drill a well. That is inseparably bound up, is it not?

A That is true.

Q Now, there is another way of approaching it, which may assist. You are familiar, you have been auditing the books of this company for some time?

A Yes.

Q You are aware from time to time they go out and do drilling for other companies?

A Yes.

Q And they charge these companies a certain number of thousands of dollars ?

A They do that in various ways. Since I have been assisting in the audit of their books I do not think that they have drilled a well solely for another company, that is, as an outside contractor would. I think that all their drilling for other companies has been where they themselves have also been interested in the drilling of the well. For your purposes I do not think that distinction is important, is it?

Q They do set themselves up to drill the well and make a charge to the owner of the well - or the company, at least the company is a separate legal entity from the Royalite Company?

A Yes.

Q The company for whom the drilling is done?

A Yes.

Q Forgetting about the various shareholders interested in this company?

A Yes.

Q Let us get this other company in our minds separate. It is a separate legal entity?

A Yes.

Q It owns a piece of property and the Royalite may or may not have any financial interest in the company?

A That is right.

Q They drill a well for the company?

A Yes.

Q Then they send a bill to the company for so many thousands of dollars?

A Well, it may be done in two or three ways. One of the ways is that....one of the ways most commonly used and I think it is the one you have in mind, is that they will undertake to drill a well for a specific sum of money.

(Page 3763 follows.)

Q Then they give the accounting of the money, do they not?

A No, not in that case they do not.

Q It may be another case I am thinking about, there have been wells they have completed on what they call "The Cost Plus Basis"?

A Yes, when they do that the usual procedure there is to charge the cost of drilling the well on a previously arranged dollar basis per day, say three hundred or five hundred dollars a day.

Q Yes?

A That is the way that was done.

Q And do they not charge some of the overhead into that, into that bill?

A No, the three hundred or five hundred dollars per day, whatever it would be, is the total cost to the outsider of having his well drilled.

Q Now, where they do it in a lump sum of so many hundred dollars a day, do they not, in arriving at the charge to be made to the other company, include something for the necessary administration expenses in supervising the drilling of that well, or in drilling the well?

A Oh, I think so, sir.

Q Yes, they do?

A Yes.

Q Now, Mr. Maw, does not that, if I may say so, impair to some extent the rigidity of the rule which you have laid down for this Commission?

A No, not at all, Mr. Frawley.

Q Why?

A Because in their own books, whether they have charged an amount sufficient to cover administration tothe outsider or not, in their own books they do not capitalize any of

the administration. The method is this, supposing it is being drilled on a $500.00 a day basis or $300.00 a day, in their own books the actual cost, not including administration, will be charged to the drilling suspense account which will be credited with these annual or these daily amounts, and at the end of the driling the differenee in that account, which will probably be a credit balance and represent some administration and possibly some profit, that will be, depending upon whether they have an interest, whether they are capitalizing their share of the well or not, will either be taken to profit and loss or in the event that they are capitalizing their own share of the well, it will be deducted from the cost of the well, which will be arrived at on the $500.00 or the $300.00 a day basis; in other words, they are particularly careful not to capitalize any administration in their own well costs.

Q I know. All that may be so, but all I am saying is, when they go out to drill a well for X, Y, Z Company, and that company has the advantage and the benefit of all the engineering experience of the Royalite Company, that is true, is it not?

A Yes.

Q And it has the benefit of the advice of Mr. John McLeod, who is an experienced man in the drilling of wells?

A Yes.

Q And all the facilities of the Royalite Oil Company?

A Yes.

Q That is why they go to the Royalite Company, so that this job will be done well and they will have the advantage of all their experience?

A That is right.

Q I say whatever method in the books they use, they do see

[illegible]

fit, and very properly in my opinion, they do see fit to charge up something against that job for the use of Mr. McLeod and the use of all his engineers and all the engineering brains of the Royalite Oil Company?

A They do where an outsider is concerned like that.

Q Yes?

A Quite properly.

Q MAJOR LIPSETT: Supposing, Mr. Maw, there is the other converse case, that we will have some day to consider, the cost and price of your crude, and supposing we find there is a well which you have drilled, say for $100,000.00, and of that, $50,000.00 is labor and $50,000.00 was indirect costs, provided, administrative costs, provided by the company in some way, would you say in giving you a fair price for your crude that we should only consider the $50,000.00 or that we should not allow you some return on the other $50,000.00 in the indirect and administrative costs?

A Well, those two things are not comparable.

Q I know they are not?

A All that would be capitalized in the well would be the labor and materials and expenses directly chargeable to the well. You mean for what purpose did we value the cost of that well.....

Q I am assuming a fictitious figure in a particular well?

A I see what you mean.

Q We are not then passing on the pipeline charge but the cost and a fair price on crude?

A I think you should value that well, the cost of that well, only on the direct cost charged into it and no administration in the case of a producing company.

Q Although these indirect costs were all necessary to get

the crude?

A I do not think that is quite the way to look at it, those indirect costs are there anyway, whether you are drilling a well or not.

Q Supposing this well again had been drilled without the use of those indirect costs, but which were given by some other company or by some other department, and we come to consider the cost of drilling that well and the resulting costs, and the fair price for crude?

A Those costs would then be charged as direct costs of that well in that case.

Q Then you would simply alter the name of them?

A No, they would not arrive in the well costs in any other way except as direct costs of the well. Any indirect costs which would get there that way, would not get there at all.

Q Well, I was asking you to assume that they were necessary, that they were indirect costs of some other division that had supplied them for the benefit of drilling this well?

A Well, if you mean to the extent......

Q The same thing exactly that you are considering, you are considering it from the pipeline point of view, and I am asking you now to consider it from the point of view of fixing the cost of the producing of the crude oil?

A Of producing crude oil from a producing well.

Q No?

A That is subject to the same consideration.

Q Producing the crude oil or drilling a well?

A Making capital expenditures.

Q If we start to do that, $50,000.00 is the cost of drilling that well, would we not be treating you very unfairly if in fact somebody had indirectly contributed another $50,000.00 which was necessary to the drilling of the well?

A I find it very hard to picture that, the drilling costs of the well, the costs directly chargeable to drilling the well are segregated in the account and that represents the cost of this well. No indirect costs, no indirect administrative costs are charged to that well. I think it would be quite fair for your purpose to take the costs directly charged to the well and let that rest as the cost of the well.

Q Would that not include Mr. McLeod's salary which we have used as an example?

A No, the cost of this well would include no part of Mr. McLeod's salary.

Q Although he spent his whole time?

A Even although he spent a lot of time, the operating department of the company must stand the cost of Mr. McLeod's salary.

Q MR. NOLAN: I do not think it is clear to the Commission that there is a Wells Operating Department.

MAJOR LIPSETT: Mr. Frawley was basing it on the capital for drilling a new well and I am putting the converse case and putting it as to what it costs to produce the crude by drilling.

Q MR. FRAWLEY: Mr. Maw, I have one more suggestion to put to you, do you say that the Drilling of Wells Department is not a revenue department?

A Yes.

Q It has certain aspects of a revenue department?

A It could have from the point of view of contracting for outsiders.

Q Yes, that is exactly what I meant?

A Yes.

A. Maw.

Q There is a good deal in the course of the year of drilling other properties by the Royalite Company?

A Well, there is not in the past year or two, and I do not think there has been any revenue taken that way, any benefit out of that is derived from the capital value of the portion of the well left, of the Royalite's ownership.

Q But nevertheless you do, you are frank that there is an aspect of the Drilling of Wells Department that makes it very much a revenue producing department?

A Oh, it could be, yes.

Q Certainly, the Royalite should not be drilling these wells and sending out its men, equipment and engineering brains and so on, without charging something?

A No, that is quite true.

Q That is quite true?

A Yes.

Q That is, perhaps, a further distinction. Mr. Maw, how much of that did you read, how much did you call attention to? (Mr. Frawley refers to book entitled "Financial Examinations" and book handed to the witness.)

A Yes, I only read from there to there and from there to there.

Q Yes. Now, I am discussing, Mr. Chairman, Exhibit "139", and I want to call your attention to pages 102 and 103, you tell me you read a portion of the paragraph on page 102 beginning "In auditing construction work"?

A I didn't read that part.

Q But that is the beginning of the paragraph?

A Yes.

Q The part which you actually read was

> "If work of construction is done concurrently with ordinary operation it is not good practice to capitalize such an amount of factory overhead

C4
7

A. Maw.

that the manufacturing costs of the ordinary product are reduced below the normal amount per unit in periods in which no construction is done."

That is what you read?

A I did read a little earlier than that.

Q You did not read any further?

A I read that.

Q Then you missed this paragraph immediately following, which I want to read.

"During construction it is permissible to capitalize a proportion of the salaries and wages of such officers and employees as are engaged partly or wholly in planning and supervising the work. This might include part of the time of the general manager and pay-roll of timekeepers, engineers and clerks directly engaged on the construction work and its records. Other proper charges to construction incurred during the period of construction and not otherwise are interest actually paid on money borrowed to buy the site and to finance construction, real estate taxes and insurance."

That is a part you did not read, and then you read, resuming again:

"So soon as the work is completed capitalization of overhead ceases; it ceases also as soon as operation begins, whether the construction work is then complete or not."

And now, Mr. Maw, do not let me leave any impression.....

THE CHAIRMAN: That is page 103?

MR. FRAWLEY: I am reading page 103.

THE CHAIRMAN: Where are you reading now, I have a note of 102 and 103.

MR. FRAWLEY: That is right, and that is all.

THE CHAIRMAN: You just read something which we did not hear, where is that to be found?

MR. FRAWLEY: On page 102, sir.

Q MR. FRAWLEY: Now, Mr. Maw, does not that paragraph which I read "This might include part of the time of the general manager," that is what it is permissible to capitalize during construction, - "part of the time of the general manager", does not that just, to me, a layman, that seems to be the kind of thing I am talking about, Mr. McLeod's salary?

A Mr. Frawley, just where I, perhaps, omitted to read that paragraph to you, sir, you have omitted to notice that the second paragraph which I did read directly qualifies this paragraph, this is during construction, the initial construction of an enterprize.

Q Yes. As soon as the work is completed, it is quite permissible when there is no operation going on but purely construction, it is permissible to capitalize administration, but so soon as the work is completed capitalization of overhead ceases.

Q This is purely construction, and it is never anything more than construction if you get a duster?

A That is right.

Q And so we take the case of the duster, why that is all construction and in that case it would be quite proper to capitalize the general manager's time, that is in this case Mr. McLeod's time, that is in a case where there is nothing but a dry hole?

A If it has operating wells that can stand the administration

costs and that is where it will be charged.

Q Now, you are getting away from what would appear to be what this man is talking about?

A In answering you, Mr. Frawley, in the latter part of the last paragraph it covers exactly that point.

Q You say "So soon as the work is completed", all I am suggesting to you is whether regarding the one well, we just have one well, now, and we construct it up to the time we get our production, that is surely construction?

A Yes.

Q Yes?

A It ceases also as soon as operation begins whether the construction work is then completed or not.

Q Yes, but in this case I am putting to you, there is never any "So soon as the work is completed", this dry well I am talking about has been completed, the construction work is done, no production at all, no oil, no oil, you just get a duster?

A Well, I say that in the case of a company which has drilled a dry hole only.....

Q Yes?

A It is permissible to capitalize the administration.

Q Then we have the picture, if the Royalite had such bad luck for one, two, three or four years, to have nothing but dusters, then it would be permissible to capitalize Mr. McLeod's salary?

A Providing there was no operating revenue against which to charge it.

Q From the wells, you mean?

A No, from anywhere.

Q So you would say, although this man says you may capitalize

C4
10

A. Maw.

the general manager's salary during construction, you would not permit that to be done?

A During initial construction.

Q Well, during the construction of the well?

A No, just initial construction, construction undertaken before the company has any operating revenue.

Q Yes, well, they would not have any operating revenue from these wells?

A Not from these, but they might have operating revenue from some other source.

Q So that if this company did two things, I do not want to put it to you too absurdedly, if their business in life consisted of two things, the drilling of wells and the selling of pianos, you would say that they were, they would charge up against the selling of pianos, the general manager's salary, because that was the place where they got the money, no matter how much or how little, and it would not be permissible to charge it up against the drilling of the wells even although that might take 50% of the general manager's time, that is what you are leading to, is it not?

A Yes, I think so.

Q There is never any interruption in the drilling programme, the drilling programme is continuous?

A No.

Q They keep on all the time, do they not?

A No, I mean there is an interruption.

Q Where is the interruption?

A Some years they never drill at all.

Q And other years it is all drilling and no production, I suppose?

A No, there is always production.

Q Well, fortunately, up until now there has been. Mr. Maw, I think I am finished, I understand now that you are going to file an Exhibit in which you are going to do the best you can, or perhaps I am wrong, I want to be clear now?

THE CHAIRMAN: Yes, on Monday.

MR. FRAWLEY: On Monday you are going to file an Exhibit showing as best you can what through-put?

A Yes.

Q What the rate should be over the years?

A Yes, that is right.

Q Mr. Maw, you are familiar with Exhibit "119"?

A May I just look at it?

Q Yes?

(Exhibit "119" handed to the witness.)

A Yes.

Q And you know what Mr. Taylor said about that the other day?

A Yes.

Q In cross-examination?

A Yes.

Q You agree with what Mr. Taylor said, do you?

A Well, I cannot, you see, he expressed the opinion that he was unaware of a feature......

Q Yes?

A I was aware of that feature, if that is what you mean by agreement.

Q Well, no, it was the material thing, was it not.....

THE CHAIRMAN: What feature?

Q MR. FRAWLEY: Yes, what was the feature that he said?

A You suggested to him that in addition to the amortization.....

Q Or someone else suggested?

A Yes,it was, I think, Mr. Morrison, but, however, it was suggested.

Q It was suggested to him, yes?

A To Mr. Taylor that in addition to the item of amortization of $1754.25 shown on this Exhibit, that there should also have been an additional item of amortization to take care of similar items to those arising out of prior years' capitalization.

Q Yes?

A And he said that he had overlooked that.

Q Yes, well, now, yes, he said he had overlooked that and he, therefore, said that the Exhibit "119" did not, had not been followed through to its logical conclusion.....

THE CHAIRMAN: Accounting conclusion.

Q Accounting conclusion?

A I believe he did say that.

Q Have you not this situation, in your opinion Mr. Morrison has not followed his figures through to its logical conclusion and the Exhibit "119" which you file for the purpose of demonstrating that imperfection on Mr. Morrison's part, has not itself been followed through to its logical conclusion?

A Well, there is a difference, Mr. Frawley, because in this particular Exhibit it only undertakes to split the one item of twenty-five thousand and some odd dollars here, and insofar as that particular item is concerned, the $1754.25 is the only charge, but I would like to add that, to that extent Exhibit "119" can be misleading, that there certainly is another feature which would come in but it does not directly arise out of this particular item.

Q No, you see, Mr. Maw, this is what I understand, you took

issue from the beginning about Mr. Morrison's method of allocating the indirects?

A Yes.

Q And we heard what you have to say in your examination in chief about that?

A Yes.

Q Then I understand that this Exhibit "119" was filed for the purpose of demonstrating to the Commission why Mr. Morrison's method should not be accepted by the Commission, am I right in that?

A That is right.

Q So that at least we have arrived at this, that you now admit that Exhibit "119", well, may I put it this way, that you do not now desire this Commission to take Exhibit "119" and be guided by it in arriving at whether or not Mr. Morrison's method may be imperfect or not, whatever else they may think of Mr. Morrison's method?

A May I say this, Mr. Frawley, that I agree with you that Exhibit "119" should have had a notation on it, but for the purposes for which I used it that would not be material.

Q Well, you used it, as I understood, for the purpose of showing that Mr. Morrison had not pursued his method of allocation to its logical or its accounting conclusion?

A That is right.

Q Now, that was its primary purpose?

A That was the only purpose for which I used it, that is the only purpose and for that purpose it is still adequate.

Q It is still adequate?

A Yes.

Q Now, I understand?

A It is not complete, it is not a perfect Exhibit, but it still does bear out, because, I can show you in just a few words why, supposing that it had included items of a similar

nature which would occur from prior years' capitalization, it could not, at September 30th, 1938, it, or its predecessors for five years, could not between them include the same amount of capital charges because of the amortization which will accrue on them between September 30th, 1938, and the end of the project.

Q Now, I am going to leave that cross-examination there and that is all the cross-examination I have to conduct. Mr. Morrison may have some questions.

Q MR. MORRISON: I would like to clear up this matter of this Exhibit. The last word in the Exhibit is "Total charge to operations in place of $42,922.76", which amount is the total of my statement in Exhibit "88", and the figure is then down as $18,948.03. Now, would that be the correct figure under any method which you care to adopt, which would replace the figure of $42,922.76?

A No, that is right, Mr. Morrison, it would not, not as a total charge, not as a total charge it would not. You are quite right.

(Page 3777 follows.)

Q So this Exhibit "119" is quite incorrect insofar as that statement is concerned?

A Yes.

Q The total charge is not $18,948, to replace the figure which I have of $42,922.76?

A That is correct Mr. Morrison.

Q Well just in order that we might be quite clear, do you still wish the Commission to take cognizance of Exhibit "119" as having any value insofar as that is concerned?

A No, I think they should not.

MR. FRAWLEY: That is all, thank you, Mr. Maw.

THE CHAIRMAN: Any questions, gentlemen?

MR. PLOTKINS: I have one question which I think will help the Commission.

Q MR. PLOTKINS: In the present company's accounting procedure with respect to these services that are rendered to the pipeline division, steam, water, electricity and so forth, are they not as a matter of fact evaulated and charged in dollars and cents to that division and used by the company in determining costs of pumping crude from Turner Valley to Calgary?

A Some charges from those, from the operation of those indirect assets are charged to operations and others are not.

Q Others are not?

A Yes.

Q Which ones are not?

A Well for instance, the amortization charge on those

assets is never distributed in the accounts at all.

Q You probably do not understand my question, the electricity is evaluated at so much a kilometre and the water is evaluted, the steam is evaluated at so much a pound, at least that is my experience in the operation?

A Not consistently, that has not been consistently applied.

Q Is that not applied by the company at the present time?

A Not altogether, no it is not.

Q It is not?

A No.

Q Do you know for sure?

A Oh I know exactly how those accounts are handled.

Q So you say at the present time they do not evaluate steam for instance and include it in the costs, per pound or thousand pounds, the cost of producing that steam including the amortization of the assets which would be required, in other words when we sell steam or when the Royalite Oil Company, because that is in effect that is what it does, when it sells steam to the pipeline division, it sells it at so many cents per hundred pounds or thousand pounds and naturally it would be included in that price that it would be charged, in this case not being a separate company, it only charges it, it does not collect it, it would include an amount which would be sufficient to produce that steam and amortize whatever investment was incurred in producing it.

A That is not the methods they use.

[illegible]

[illegible] electorally [illegible] would [illegible]

the [illegible] the [illegible]

[illegible]

[illegible] accounts [illegible] filed.

[illegible] not [illegible]

[illegible] the [illegible]

pound or fifteen pounds, the sum [illegible]

amount [illegible] the [illegible]

would be regarded, [illegible]

[illegible]

Q That is not the method?

A No.

Q Now can you tell me this, how can the company determine, and I assume they do, the cost, the actual cost to the best of their ability, of transporting a barrel of crude from Turner Valley, that is from the point of gathering, into the terminal in Calgary, do you say they do not do that?

A So far as I know they never attempted to do that until this present Inquiry.

Q They have never attempted to do that?

A No.

Q To the best of your knowledge?

A That is the best of my knowledge.

Q THE CHAIRMAN: And if they did do it, you would know that I suppose?

A Yes I would think so, I think if they did that we would have used the result of their finding.

Q MR. PLOTKINS: Would you not think that it would be normally the procedure for a company such as this with a number of operating departments and a central plant providing facilities to the various departments, to account in that manner for the disposition of the costs which are incurred in producing the electricity, water, steam and so forth?

A Well to some extent they do attempt to distribute some of those but not to the extent you suggest. As to whether it is a normal procedure or not I think that it is, it would be quite a normal procedure to endeavour to the extent that it is practical and necessary, to allocate those charges.

Q If this Pipe Line Division were a separate entity and in the hands of a separate company and the officers of that Company were faced with the necessity of either buying through, or providing their own facilities to provide utilities, or purchasing them from another company, would they not go to the Power Company and find out how much it would cost per kilowatt to buy electricity, and how much it would cost them for water, etc., and then be able to decide whether it is better or more economical for them to put up their own plant, having in mind all the circumstances, or whether it would be better to purchase from the utilities.

A I imagine they would.

Q So are the officers of the Pipe Line Division - Mr. Coultis for instance, is he not faced with that necessity when he considers one year's operation with another, in evaluating these utilities. Or is it imposed on him, whatever the price is, or the amount rather, that you allocate to that?

A I am sorry I got lost in that question.

Q Mr. Coultis, he has told us, you heard him, I think, that he was in a position each year to compare one year's operations with another. It turned out later he said he did not see any statements, but he was given the information and in digesting this information as the manager of the Pipe Line Division, he would have to satisfy himself that they did not charge him too much, in keeping with their value, for the utilities that his Division used, and he would weigh the charge that they would make against him department, because

he may be very efficient in everything, but if they charge more than what these utilities are really worth, well all his efficiency comes to naught.

A I do not know what statements you are referring to, Mr. Coultis would be looking at when he was asking himself these questions.

Q I am referring to his answers. We came to the conclusion in questioning him that he was in a position to determine all the direct costs of labour, in operating and so forth. It follows he would also be in a position, if he is going to apportion one year from another, which is a normal managerial operation, at least duty, that he would also inquire into the cost of the utility that is charged up to his operating costs, wouldn't he?

A I have no knowledge as to what inquiries Mr. Coultis would make.

Q So far as you are concerned, you do not know, or at least you have no knowledge of the Royalite Company evaluating these facilities in dollars and cents from period to period, and making a direct charge in the records of the company so as to determine the full costs, direct and indirect.

A I am entirely familiar with the manner in which the charges are made from the utilities and service operations to the other operating departments.

Q That is in connection with the Balance Sheet at the end of the year, for the purpose of closing the books and presenting a record to the shareholders, but when it comes to operating it is a little different procedure. The management must be in a position

to have the statistics, the records that will guide them in their operations, and is it normally the duty of an auditing firm such as yours to inquire into that?

A Into the system of accounting carried out by the Company, yes it is.

Q Not accounting. It is not strictly a matter of accounting. It is a matter of records.

A You are not referring to accounting records then?

Q No.

A Well I am only concerned with the accounting records.

Q It has never come to your knowledge that they carry on such a procedure to determine the value in dollars and cents of the services that the utilities render to the Pipe Line Division?

A I cannot......

Q THE CHAIRMAN: Such as providing electricity and steam?

A I said that the company employs various methods of making charges for services from the utilities and service assets and that I am familiar with all that, and that naturally some of these charges find their way to the Pipe Line Division. I think that is the only answer I can give. I do not quite see what Mr. Plotkins is trying to find out from me.

Q Mr. Plotkins, as I appreciate it, says, if the Pipe Line Company wants to know, the Pipe Line Division wants to know whether or not it is operating at a profit - which he seems to think Mr. Coultis would be anxious to know - and I gather Mr. Coultis would?

A Yes.

Q That he would want to know what he was paying for

electricity for example, or what is being charged to his department for electricity?

A If he asked that question of the accounting department they could tell him. But it would not be on the basis of so many kilowatts that Mr. Plotkins is suggesting it would be.

Q On what basis would it be then? That is what Mr. Plotkins wants to know?

A In the case of electricity it would be on an arbitrary basis arranged by the engineering department in the field.

Q An arbitrary division?

A Yes.

Q Rather than a division based on record of consumption?

A Yes.

Q Determined by meter or otherwise?

A That is right.

Q That is the answer to that.

A That does not apply to all costs. That is just electricity.

Q Now he mentioned steam. Is that too arbitrary

A Steam is on the same basis as electricity.

THE CHAIRMAN: Anything else you want to know?

Q MR. PLOTKINS: And water the same way?

A Not necessarily water. Water is, in some instances I think, metered, but not in all. I would not like to give you a definite answer on water. Water is sometimes on a daily or monthly flat rate basis.

Q That is all, thanks.

Q MR. FRALEY:- I am sorry there is a

electricity for example, or what is being charged to his department for electricity

A If he asked that question of the accounting department they could tell him. But it would not be on the basis of so many kilowatts that Mr. [illegible] is suggesting it would be.

Q On what basis would it be then? That is what Mr. [illegible] wants to know?

A In the case of electricity it would be on an arbitrary basis arranged by the engineering department in the field.

Q An arbitrary division?

A Yes.

Q Rather than a division based on record of operations?

A Yes.

Q Determined by meter or something?

A That is right.

Q That is the answer to that.

A That does not apply to all costs. That is just electricity.

Q Now he mentioned steam. Is that too arbitrary?

A Steam is on the same basis as electricity.

THE CHAIRMAN: Anything else you want to know?

[illegible]: And water [illegible]

[illegible]

[illegible] all, thanks.

[illegible]

a line of questioning I want to do with you. I do not think it will take many minutes. On the question of the rate of return. You substantiate Mr. Taylor's statement this Company should have 20% return on its investment?

A Yes.

Q Now if you assume with me that the Commission will - just assume for the moment that the Commission will endeavour to arrive at a life for the field?

A Yes.

Q And that then, I presume for the purposes of their further calculations can be treated as a fact?

A I will assume it for the purpose of this question.

Q I mean you will assume with me that the Board would then be justified in treating the determined life of the field as a present fact in their further calculations leading to a rate?

A Yes.

Q We understand each other do we?

A Yes.

Q Now, having arrived at a life for the field, then does not that take a great deal of the hazard out of the investment?

A I means that they are taking cognizance of a hazard but you would not thereby remove it?

Q Oh yes. Let me put it to you in their own minds they have now given the field a life?

A We will assume that they do.

Q Yes, we assume that?

A That is what you are asking me to assume.

Q Yes, assume that they do. They may indeed not do that,

but if they do arrive at the life of the field, then they have given the field a life and then presumably - markets and all other things aside for the moment?

A Yes.

Q The pipe line will be pumping oil - the Pipe Line Division will be pumping oil through the division for 5 or 10, 15 or 20 years, whatever it is that the Board chooses?

A That is right.

Q Then that particular hazard of no oil there to pump is removed entirely is it not? Markets aside always.

A Markets aside, and presuming that they know for a fact that they know the field will last this number of years.

Q I put it to you that is what they have done.

THE CHAIRMAN: We have found that fact.

A You have found that fact. Yes, that is right.

Q MR. FRAWLEY: So that, markets aside, there is not any hazard at all. That is just a question of the value of your money is it not? Nothing further of a speculative nature of the enterprise there at all?

A With a definite life of the field found, the hazard has gone, that hazard.

Q Whether it is a major one in your opinion, it is a considerable hazard up to the time that the Board arrives at that figure?

A It is undoubtedly.

Q A very important hazard?

A Yes, a very important hazard.

Q Perhaps the principle one?

A. Maw.

A I would not be quite sure of that, Mr. Frawley. I think perhaps the possibility of another field is just as big a hazard to this operation.

Q We know now that the Turner Valley has a lot of production?

Yes.

Q We do not know of a single other field in Alberta that has much production?

A At present no.

Q Because I would like to get it on the record - I do not know whether you can help me or not - Mr. Coultis yesterday told us Plains Petroleum was moving crude oil and supplying certain refineries. Do you know about that?

A Just from casual knowledge. I understood that they had been selling small quantities of crude for several months.

Q Yes, and I put it to you - my information is, Mr. Maw, from the Company itself, that their average daily production in 1938 was 48 barrels a day, and all of that went to the Imperial Oil Company.

A I can believe that, yes.

Q And that is the only one Mr. Coultis suggested. We heard about a little oil coming from Moose Dome, to Mr. Munro?

A Yes.

Q But those things are exactly negligible?

A They are no hazard at the moment.

Q So we have the hazard of a new field being found.

THE CHAIRMAN: Where is Plains Petroleum again?

MR. FRAWLEY: Near Taber, Sir. In the

Taber district.

THE CHAIRMAN: Oh yes.

Q MR. FRAWLEY: Then, Mr. Maw, with the hazard of a new field coming in, that is again something that is, I put it to you with every respect, difficult for an accountant to take complete cognizance of?

A Absolutely.

Q Because we have evidence before this Commission that in the opinion of at least one witness, deep drilling still goes on after shallower fields are found, and if that were so then that would pretty well balance and remove the risk of that hazard would it not?

A Well it would make the hazard less severe.

Q And then we have another one and that is loss of markets. Possibility of diminution of through put through loss of market?

A Yes, that is true.

Q And that is something with respect to which you at the moment have no definite knowledge?

A No, I have not.

Q But do you not agree, as an accountant, having given a lot of time to this rate case, that that is something which could very properly be cured by application to the regulatory body for a revision of its rate consequent upon a sudden loss of market?

A I suppose it could be, yes.

Q And so I ask you to keep that in mind as a very serious, as a real fact, the existence of the regulatory body?

A Yes.

Q For the purposes of arriving at any rate which would appear

to become suddenly out of line due to sudden loss of market?

A Yes. There is another feature in connection with the 20%.....

Q Before you go to that, Mr. Maw, You agree with me that if this Commission has in mind the existence of a regulatory body to correct obvious defects in the rate due to sudden loss of a big market, then that again is something that need not necessarily be taken into account now by the Board in fixing its present rate.

A Well it would not be a serious hazard for them to consider.

Q Depending, of course, again on the evidence they had as to the imminence of the loss of market?

A That is right.

Q Quite. That is only fair. Now these things being taken into account are you not in the position not of a person seeking a high rate, but of a person being guaranteed a rate, and guaranteed earnings, and, therefore, content to take a very much lesser rate?

A Not altogether, Mr. Frawley, because granted that there are some hazards.

Q Yes?

A Which might become operative before the property is fully amortized.

Q Yes?

A To the extent that they would very seriously cripple the operation, and possibly stop it.

Q Yes?

A Then there is this feature to consider, that up to the present the history of the company has been that although

it may have earned 20% or more on its investments, it has been unable to realize it.

Q I do not quite understand.

A This 20% return is, in effect, deferred from a cash point of view until you reach the stage where the assets are being materially amortized, and the amortization is being returned to the company in cash.

Q I do not want to get into anything too involved. You say while they have made more than 20%, that they have not been able to realize it?

A Yes, to realize it in cash., You see the nature of the operation is such that the bulk of their returns they have had to reinvest.

Q Somebody said the other day it was as much theirs to use on a trip to Europe if they chose?

A It was, but in order to protect their investment, which was a hazardous one, they were compelled to make those further investments and in effect the 20% return up to date - it would average a little over 20% - will not have been an adequate return unless the project is followed out sufficiently far into the future to realize some cash out of its return.

Q Giving due effect to what you say, Mr. Maw, I am merely asking you to keep in mind, and give effect to, in your answers, to the existence of a regulatory body, whose prime business it would be to correct by awarding an increase in the rate, any sudden distortion of the operating position.

A I think that is a very important factor.

Q Yes, exceedingly important?

It may have earned 20% or more on its investments, it has been unable to realize it.

I do not quite understand.

A. This 20% return is, in effect, a return from a cash point of view until you reach the stage where the assets are being entirely amortized, and the amortization is being returned to the company in cash.

Q. I do not want to get into anything too involved. You say while they have made more than 20%, that they have not been able to realize it?

A. Yes, to realize it in cash. You see the nature of the operation is such that the bulk of their returns they have had to reinvest.

Q. Somebody said the other day it was so much theirs to [illegible] in Europe if they chose?

A. It was, but [illegible] to protect their investment, which was a [illegible] one, they were compelled to [illegible] and in effect the 20% return up to date [illegible] a little over 20% [illegible] has not been an adequate return unless the company [illegible] sufficiently far into the future to realize [illegible] out of its return.

[illegible] you say, [illegible] asking you [illegible], [illegible] effects [illegible] your [illegible], to the [illegible] of regulatory [illegible], where [illegible] correct [illegible] of the [illegible] situation.

I [illegible].

Yes, [illegible]

A Yes.

Q Is it not so important it turns a risky investment into almost, I do not like to say a guaranteed, but a very secure one?

A It does not do quite that much, but it should help in some of the hazards.

Q They have it within their power just suddenly to increase your earnings?

A That would be a help, yes.

Q That is increase the rate and increase your earnings?

A Yes.

Q That is of prime importance is it not?

A That is very important.

Q So if you assume that, I suggest to you you get away down out of the 20% class, on that assumption always, and you get away down from the 20% class and get down into the rate of return which a recognized public utility is earning. Do you see anything wrong with that proposition?

A I can see that it would necessarily be an influence.

Q The two very important factors, the life of the field having been determined by this Commission?

A Yes.

Q And therefore, from that time that is established as a fact?

MR. NOLAN: Oh no.

MR. FRAWLEY: My friend is bothered. Perhaps I am expressing it poorly but I hope my friend knows what I mean. You know what I mean?

A Yes.

Q With respect it is more important that you should under-

A. Maw.

stand it than Mr. Nolan should at the moment. You think this, that the existence of a regulatory body - you say these two things are important to take into account, and both of them you say argue for a much lower rate of return than 20%?

A They could do.

Q MR.NOLAN: My friend has been talking to you about hazard and he has suggested to you that this Commission has fixed the life of the field at X years?

A Yes.

Q All right. Was your answer based upon the assumption that this company, irrespective of their market requirements, would have 6,000,000 barrels of oil to transport during each of those X years?

A Not necessarily that figure, Mr. Nolan, but I naturally assumed if the field was going to have a fixed life, that it meant anyway a large annual through put to be profitable to handle would be carried by this company. Not necessarily 6,000,000 a year.

Q What you are saying is that if the Commission fixes the life of the field at X years, you are assuming from that......

THE CHAIRMAN: It will be left with a certain through put?

A That is right.

MR.NOLAN: The fact the Commission fixes the life of the field does not necessarily guarantee the through put?

A No.

Q But on those two assumptions you have made your answers?

A. Maw.

A Yes.

MR. FRAWLEY: If you lose the through put....

THE CHAIRMAN: Up goes the rate.

MR. FRAWLEY: Up goes the rate by the regulatory body necessarily. I just want to see whether the witness agrees with me.

A If you lose all the through put you have lost everything.

Q Oh, let us not think of such a horrible thing. If you lose some through put the regulatory body could compensate you at so much a barrel?

MR. NOLAN: Will you now guarantee that you will not oppose an increased rate should such a contingency occur?

MR. FRAWLEY: Who will I be at that time?

....

MR. FRAWLEY: I am going to ask the Commission if they will be good enough not to sit on Monday, and give me an opportunity of going to Edmonton. I think my going to Edmonton will serve its purpose, and perhaps in the end the interests of the Commission will be best served. I have spoken to my learned friend, Mr. Nolan, and I do not think he has any objection.

MR. NOLAN: Not at all.

THE CHAIRMAN: Very well, we will rise and sit again on Tuesday morning.

(At this stage the Hearing was adjourned until 10.30 A.M., 7th February, 1939).

....

The Province of Alberta

IN THE MATTER OF THE PUBLIC INQUIRIES ACT

—and—

IN THE MATTER OF a Commission, dated the 12th day of October, A.D. 1938, to inquire into matters connected with Petroleum and Petroleum Products

Commissioners:

The Honourable MR. JUSTICE McGILLIVRAY
(*Chairman*)

—and—

L. R. LIPSETT, ESQ.

Session:

CALGARY, Alberta FEBRUARY 7th, 1939

VOLUME 31

I N D E X

[illegible]

I N D E X Cont'd.

THE CHAIRMAN: Mr. Frawley or Mr. Nolan, I forget, who was going to get us the particulars of the capitalization and so on of these companies.

MR. FRAWLEY: Mr. Burns who is still to be called will give that evidence.

THE CHAIRMAN: Oh he is giving that?

MR. FRAWLEY: Yes. Mr. Chairman, the evidence this morning will deal with the matter of crude oil prices and it does seem to me that the Alberta Petroleum Association, in other words the Producers Assocation, has such a particular interest in this matter that they should be here. They had counsel at the earlier stages of this inquiry and then counsel withdrew and I would like to especially notify the officers of that association now so that they can either come themselves or send counsel, and if you would adjourn until 11 o'clock to give me an opportunity of notifying them and for them either to be here or to have counsel here.

THE CHAIRMAN: Very well.

(The inquiry was here adjourned until 11:00 A.M.)

....

MR. FRAWLEY: I will call Mr. McGrath.

MR. NOLAN: May I just make a short statement Sir, before Mr. McGrath gives his evidence, without in any way endeavouring to repeat any of the arguments that I have already made to the Commission as to how this evidence should be heard. I desire, Sir, with your permission, to place upon the records of this Commission the desire of my clients to have the evidence which is about to be offered heard in camera because of our fear of the detrimental effect that it might have upon the future of Turner Valley. In the submissions which I have already made to the Commission I have argued that the language of the Public Inquiries Act is sufficiently wide to enable and to permit this Commission to hear the evidence, and any evidence, in whatever manners seem to it fit. I understand that if all the parties were in agreement the Commission might refer the question to the Court for its opinion and as to an interpretation of the precise language of the Public Inquiries Act. However, the Minister of Lands and Mines is unwilling to consent to this evidence being heard in camera and there the matter stands. In consequence, today, Sir, in compliance with a specific request of this Commission we are making available the evidence in respect to the competition of other crude fields.

THE CHAIRMAN: Has Counsel anything to say?

MR. FRAWLEY: I perhaps should only add this in view of what my friend, Mr. Nolan, has said, that my instructions are from the Minister of Lands and Mines and the Minister of Trades and Industry, whom,

I take it, may be said to be primarily concerned in this Inquiry - that the fact of competition from other fields has to be faced and it might just as well be faced in this Commission as later, and it is for that reason that my instructions have been not to consent to have this evidence Mr. McGrath is now going to give heard in camera.

MR.HARVIE: I am in accord with the view expressed by Mr. Nolan. Our company's position is simply that it does appear to us that this part of the evidence might better be given in camera until consideration is given to it. But at the request of the Commission we are prepared to supply such evidence on the point as we can.

THE CHAIRMAN: Mr. Frawley, you sought an adjournment to notify the producers as to whether or not they wished to be represented here?

MR. FRAWLEY: I got in touch with Mr. E. W. Kolb of the Alberta Petroleum Association and he is here.

THE CHAIRMAN: Have you anything to say, Mr. Kolb, with respect to this application?

MR. KOLB: Well I do not know if it is not going to be held in camera......

THE CHAIRMAN: That is what we are going to decide. What are your views about the matter?

MR. KOLB: I do not know what to say about it. It came on me so sudden. I think they know what they are going to say and perhaps they might have some good reason for wanting it held in camera.

THE CHAIRMAN: If you have no opinion

one way of the other at the moment?

MR. KOLB: No.

THE CHAIRMAN: Have you anything to say, Mr. Plotkins?

MR. PLOTKINS: Mr. Chairman, I feel that in view of the fact that nothing in our business is secret or withheld from the Government - in other words at the present time the Government sees fit to compel us to disclose everything in connection with our business and leave nothing absolutely private, not even matters of competition, I fail to see any - in view of that - any good sound reason why any information should be given in camera or that the matter should be treated in camera.

THE CHAIRMAN: We have given some thought to this matter, to the application which Mr. Nolan has made. In the first place the Commission having embarked upon a public hearing under the Public Inquiries Act, and having given notice of the public hearing, we have, to say the least, very grave doubt as to the authority of the Commission to exclude the public. In the second place in any event we would question the wisdom of attempting to carry on an Inquiry of this character behind closed doors, and even if we had the power to exclude the public, this Commission would certainly not do so without the consent of all parties otherwise concerned. Mr. Frawley has stated the position which is taken by the Honourable Mr. Manning and the Honourable Mr. Tanner. No doubt they reflect the views of the Government of the day, and it cannot be said that there is no opposition to or at least

[illegible]

lack of consent to the holding of this Sittings in camera to hear the witnesses who speak upon the particular subject, I take it, of the Illinois field. That being so, and all parties in interest not consenting, the ruling of this Commission is that even if it has the power to sit in camera it will not do so. We will proceed with the evidence.

MR. FRAWLEY: Mr. McGrath.

....

JAMES McGRATH, having been duly sworn, examined by Mr. Frawley, testified as follows:-

Q Mr. McGrath, you live in Toronto?

A Yes.

Q What position do you occupy in the Imperial Oil Limited?

A Assistant Manager of manufacturing.

Q And the Manager of manufacturing is?

A Mr. G. L. Stewart.

Q Mr. Stewart is the Manager of manufacturing?

A Yes sir.

Q And Mr. Stewart reports to?

A Mr. McCloskey.

Q Mr. L. C. McCloskey who is the Vice-President in charge of manufacturing?

A Yes.

Q Mr. McGrath, how long have you been with the Imperial Oil organization?

A 27 years.

Q Before you were the Assistant Manager of manufacturing what were you?

James McGrath.

A   Statistician in the manufacturing department.
Q   You have intimate knowledge of the accounts of the Company as far as they relate to manufacturing?
A   Yes.
Q   You have been asked to come to Edmonton, to this Commission, to give ~~evidence~~ explaining the breaking down and analyzing of the present posted price of crude oil in Turner Valley?
A   Yes.
Q   And that primarily is what you might say the subject of your evidence?
A   I understand it is.
Q   The situation as it was today, and that was the primary purpose?
A   The situation as of today.
Q   Yes. With all recent developments up to date?
A   Yes.
Q   And they will be disclosed and explained and brought into the discussion by you in your analysis of the present posted field price will they, or am I mistaken on that?
A   I haven't all the details of that. But the principle involved in the work-up on the present conditions is the same as formerly used. It is the same principle.
Q   I want to just approach your evidence and have you give is as lucidly as possible?
A   Yes.
Q   If we ask you what the reason for the present posted field price of $1.20 for the particular gravity which is now the refinery run?
A   Yes.

Q You can do that for us?

A Yes.

Q You can tell us why it is $1.20?

A I can tell you the basis of that $1.20.

Q And then you want to go further and discuss certain possibilities or probabilities in connection with the maintenance of that price of $1.20?

A That is right.

Q It is just a matter of which is the best way to do it. I think I will leave it to you. Will you proceed and tell us why the price of $1.20 was posted, when it was posted and why it was posted at $1.20? I think that is the best way we can approach it.

A Yes. The detailed explanation would be on the present?

Q The present situation?

A Yes.

Q I think the Commission is interested in knowing this for further purposes when they go into the refining costs and marketing costs, they must have such a break-down of the $1.20?

A Yes.

Q Then they are very much interested in the possibilities and probabilities?

A Yes.

Q So I will first read to you or call your attention to, if you would give me the Oil News or something, I just want to refer to it. Mr. McGrath I am reading from the National Petroleum News of the 25th of January, 1939, page 42. I see that the posted field price in Alberta, Turner Valley prices f.o.b. field tankage

James McGrath.

effective January 5th, 1938, for crude oil are as follows:- 40 to 40.9°. That is A.P.I.?

A A.P.I., yes.

Q $1.14. 41 to 41.9, $1.16; 42 to 42.9, $1.18; 43 to 43.9 $1.20; 44 to 44.9 $1.22 and then going on in gradations of 2 cents increase to 64 - for each increase in gravity, to 64 to 64.9°, $1.62. And that is correct is it?

A Yes sir.

Q I would suggest that the Reporter put into the record this complete posting running from $1.14 to $1.62, just as it appears in the National Petroleum News, and I think it will be helpful to the Commission. Now the National Petroleum News says that these prices were posted by the Imperial Oil Limited, and that is so?

A That is right.

"Extract from National Petroleum News, dated January 25th, 1939". "

Alberta - Turner Valley
(Prices f.o.b. field tankage)
(Effective Jan. 5, 1938)
Crude Oil

40 - 40.9°	-	$ 1.14
41 - 41.9°	-	1.16
42 - 42.9°	-	1.18
43 - 43.9°	-	1.20
44 - 44.9°	-	1.22
45 - 45.9°	-	1.24
46 - 46.9°	-	1.26
47 - 47.9°	-	1.28
48 - 48.9°	-	1.30
49 - 49.9°	-	1.32
50 - 50.9°	-	1.34
51 - 51.9°	-	1.36
52 - 52.9°	-	1.38
53 - 53.9°	-	1.40
54 - 54.9°	-	1.42
55 - 55.9°	-	1.44
56 - 56.9°	-	1.46

57 - 57.9°	-	$ 1.48
58 - 58.9°	-	1.50
59 - 59.9°	-	1.52
60 - 60.9°	-	1.54
61 - 61.9°	-	1.56
62 - 62.9°	-	1.58
63 - 63.9°	-	1.60
64 - 64.9°	-	1.62

Crude Naphtha, 65 grav. & above - $ 2.14

Absorption Gasoline

90% Rec., 20 lb. Reid v.p. - $ 1.94
90% Rec., 17 lb. Reid v.p. - $ 2.08 "

Q It is also a further fact that at the present time the refinery run at East Calgary, or the Pipe Line run rather, is 43 to 43.9°?

A That is right.

Q And that is $1.20?

A $1.20.

Q You had to do with the posting of that price yourself did you?

A No, the officers of our Company posted it.

Q Well you know about it. You know how it was built up?

A Yes, exactly.

Q And you having built it up you can break it down for us. Will you tell us about the $1.20 price?

THE CHAIRMAN: How long does that continue beyond January 1st?

MR. FRAWLEY: These are the existing prices. There has been no change in the posting. They were posted on January 5th, 1938, and they continued till now?

A Yes.

Q And they will continue until a further posting is made?

James McGrath.

A Yes. Now, Mr. Frawley, I haven't all the details in the work-up of the $1.20 crude. I haven't them with me. I have the prices on which it was based and I have a memorandum here outlining the procedure, and if you are agreeable I will start with that.

Q Yes. Well now, Mr. McGrath, subject to the limitation of not having all the figures, just make it as fully as you can.

A Prior to the production of Crude Oil in quantity in Turner Valley the requirements of the Western Provinces were supplied by processing Montana Crudes at Coutts, Calgary and Regina Refineries, and Mid-Continent Crude Oil at Sarnia for the Manitoba Area.

About April 1937 Calgary Refinery began to receive small quantities of Turner Valley crude which displaced Montana Crudes. The quantity of Turner Valley Crude increased to a point about August where there was sufficient available to displace Montana Crude at both Coutts and Calgary Refineries.

Subsequently larger quantities of Turner Valley Crude became available and Imperial felt it should be given the greatest possible outlet. Therefore, toward the end of 1937 Turner Valley Crude was shipped to Regina in sufficient quantities to displace the products from Montana Crude and also the products being produced from Mid-Continent Crude at Sarnia and shipped into the Manitoba Area.

Extending Turner Valley Crude to include the Saskatchewan and Manitoba Areas being supplied by running Montana Crude at Regina and Mid-Continent

James McGrath.

Crude at Sarnia made it necessary to place a value on Turner Valley Crude which would make it competitive with both these Crudes in the respective areas.

The competitive price for Regina was lower than the Calgary price and the competitive price for the Manitoba Area was lower again than that for Regina. As it was impractical to have three separate prices the Prairie Provinces were considered as one Unit and an average price per barrel based on the quantity required for each Area was posted. Hence the posting of $1.30 per barrel for 48° A.P.I. gravity on January 5, 1938.

It must be borne in mind, however, that the average price of $1.30 per barrel for the three areas consisted of three separate components; i.e., the Calgary price at $1.52 per barrel, which was higher than the $1.30 per barrel posted, and the Saskatchewan and Manitoba prices which were lower than the average price of $1.30 per barrel.

At the time Turner Valley Crude was posted at an average of $1.30 per barrel at the well, Montana Crude could be bought for $1.00 per barrel and Mid-Continent Crude was posted at $1.22 per barrel at the well. Since that time there has been a general reduction in the price of Crude Oil in the United States and also the Loudon, Illinois, field has been developed and owing to its proximity to Sarnia it has displaced Mid-Continent Crude.

It might be pointed out that while Loudon, Illinois, Crude is posted at $1.15 per barrel quantities are being purchased for less than this figure. We also understand that Montana Crude is being purchased for as low as $0.75 per barrel.

Crude a [illegible] to [illegible]

on [illegible] they [illegible]

with both [illegible] crudes [illegible] respective cases.

The [illegible] as low [illegible]

the [illegible] gravity [illegible]

[illegible]

[illegible] so [illegible] seps [illegible]

[illegible] gases were found [illegible]

[illegible] gravity

[illegible], hence [illegible]

[illegible] January

[illegible] forms [illegible], however, [illegible]

[illegible] the [illegible] crudes [illegible]

[illegible] i.e., the [illegible]

[illegible] higher [illegible]

[illegible], and [illegible]

[illegible]

[illegible]

could [illegible]

[illegible] 1.27 [illegible]

[illegible] that [illegible]

Crude [illegible]

[illegible] developed [illegible]

[illegible]

Crude is [illegible] at 1.21 [illegible] gas [illegible] not

[illegible]

[illegible]

James McGrath.

To sum up the situation as it is at the present time we have assembled figures in chart form. These charts protray in colour the territories involved, the quantities of Crude required to supply the estimated demand for 1939, and the value of 48° A.P.I. gravity Turner Valley Crude at the well for each area and for the three areas as one unit.

Charts Nos. 1, 2, and 3, show 48° Gravity Turner Valley Crude for Calgary Refinary in competition with $1.00 Montana Crude to be worth $1.5016 per barrel. These charts also show the value of Turner Valley Crude for Regina Area in competition with Montana Crude at $0.80, $0.90 amd $1.00 per barrel, and for the Manitoba Area in competition with Loudon, Illinois Crude at $1.15 per barrel.

Charts 4, 5 and 6, assume the present posted price of $1.30 per barrel for Calgary Refinery and the same competitive conditions for Regina and Manitoba Areas as are shown on Charts 1, 2 and 3.

Q You have been referring to these as charts. I think if you would now file the Charts and describe them as you offer them and we will mark them. First we will put numbers on them so we can refer to them by the Exhibit number. If you will say what you are first producing and describe it fully, and then we will mark it.

A Chart No. 1 shows barrels of Turner Valley Crude and the value of Turner Valley Crude at the wells based on Cutbank Crude at $1.00 per barrel for Calgary. Instead of based on that I should have said in competition with. And in competition

[illegible] movement

that we have [illegible] these figures in other form. [illegible]

[illegible] a [illegible] the [illegible] involves, [illegible]

[illegible] magnitude [illegible]

[illegible] 1939, [illegible] the [illegible]

[illegible] Crude [illegible]

[illegible] as one [illegible]

[illegible] 35 [illegible] activity [illegible]

[illegible]

[illegible] 1,8010 [illegible]

[illegible]

[illegible]

[illegible] S.D., S.[illegible] [illegible]

[illegible] Crude as [illegible]

[illegible] present, [illegible]

[illegible]

competitive [illegible] maintain [illegible]

as are shown [illegible]

[illegible]

with $.80 per barrel at Regina and Illinois Crude at the well price of $1.15 for the Sarnia Area.

Q That is a general description of Chart 1?

A That is a gemeral description of Chart 1, yes.

CHART IN QUESTION IS NOW MARKED EXHIBIT "140".

(To to Page 3806).

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

MR. FRAWLEY: This Exhibit will not be explained in detail at the moment, sir, not until we have the other two put in.

MR. NOLAN: They go in as a series, sir, and we thought this would be the best way.

Q MR. FRAWLEY: Will you explain the further charts you have?

A Chart No. 2 is on the same basis as Chart No. 1 with the exception that the replacement value of Turner Valley crude at Regina is computed on 90 cents per barrel for Cutbank crude.

Q Instead of?

A Instead of 80.

MR. FRAWLEY: I will offer Mr. McGrath's Chart No. 2 as an Exhibit.

(CHART PRODUCED HERE MARKED AS EXHIBIT "141")

WITNESS: Chart No. 3 is on the same basis as Chart 1 and 2 for Calgary and Sarnia but at Regina the valuation as to Turner Valley crude has been based on $1.00 per barrel for Cutbank crude instead of 80 in Chart No. 1 and 90 in Chart No. 2.

MR. FRAWLEY: We offer Mr. McGrath's chart No. 3 as an Exhibit.

(CHART NO. 3 PRODUCED BY THE WITNESS HERE MARKED AS EXHIBIT "142")

Q No do you want to stop now and explain these in detail?

A No, except that this is a general outline of the charts, the charts of the territory. I would like to give just a brief description of the chart and then the details

MR. ...: This ... will not be explained in detail at the moment, Sir, not until we have the other two put in.

MR. McGRATH: They ... it as ... ... and we thought this would be the best way.

MR. HANLEY: Will you explain the further charts you have?

Chart No. 2 is on the same basis as Chart No. 1 with the exception that the replacement value of Turner Valley crude at Regina is computed on 90 cents per barrel for Cutbank crude.

Instead of?

Instead of 80.

MR. FRAWLEY: I will offer Mr. McGrath's Chart No. 2 as an Exhibit.

(CHART PRODUCED MARKED AS EXHIBIT "...")

WITNESS: Chart No. 3 is on the same basis as Chart 1 and 2 for Calgary and Regina ... Regina the valuation as to Turner Valley crude has been based on $1.00 per barrel for Cutbank crude ... at 80 in Chart No. 1 and 90 in Chart No. 2.

MR. McGRATH: We offer Mr. McGrath's chart No. 3 as an exhibit.

(CHART NO. 3 ... MARKED AS EXHIBIT "...")

Do you want to ...

shall follow, if that is all right.

Q Yes that is fine.

A Referring to Chart No. 1 it will be observed at the top of the chart that it portrays in colours the areas served by Calgary in red or pink, Regina in green and the yellow area represents the territory supplied by Sarnia.

Q In Western Canada?

A In Western Canada, in the Manitoba area.

Q MR. COTTLE: That is to say, Mr. McGrath, the territory which normally would be supplied from those?

A Yes.

Q Not necessarily the territory which is supplied now?

A That is the territory which would be supplied, yes. The division of the territory between the refineries isnbased on the values of petroleum crude, in other words the line between Calgary and Regina is determined by the relative values of crude between those, between Regina and Calgary refineries. The line between the yellow area and the green area representing Regina is determined by the relative values of crude, the competitive values of crude between Sarnia and the Regina refinery. The competitive crude in the case of Calgary on Chart No. 1 is $1.00 per barrel for Cutbank crude at the well; for Regina it is based on 80 cents per barrel for Cutbank crude at the well; for the Sarnia area it is based on $1.15 per barrel for Illinois crude at the well. Now when this chart is divided in this manner the traffic department in conjunction with the sales department de-

termined the volume of products required in each of those areas for each refinery. This quantity is then related to crude oil. At the bottom of this statement it will be observed the barrels of crude oil required daily for each of the areas; to the right-hand side of the statement it shows the value that can be paid for 48 gravity Turner Valley crude at the well to supply those areas in competition with other sources of crude.

Q Mr. McGrath, in view of the fact you have taken 48 gravity crude and the refinery run being 43, is it about, will you explain that?

A I will just explain that Mr. Frawley, at the time of the posting of the price $1.30 per barrel on January 5th, 1938, the crude being received was about 48 gravity. Since that time the gravity has fallen and the calculations on which these statements were made were based on operation of 45 gravity but in order to make it comparable with the original figuration we have added 2 cents for a degree or 6 cents to the value of the 45 gravity, to compare with the posted price of 48 gravity. In other words we have elevated it 2 cents per degree.

Q In other words you are satisfied your computations are just as precisely and correctly worked out on 48 gravity crude as if you had taken the actual refinery run at the moment, it would work out exactly the same?

A Well I think so.

Q We want to make it clear to the Commission, that is the

only purpose for the elevation up to 48° gravity?

A We might as well have left it at 45 gravity.

Q All right. Now is that all you want to say about Chart No. 1?

A That is a general explanation of Chart No. 1.

Q We will see, Mr. McGrath, if there is anything we can think of to ask you to clarify it, because we want it in the simplest language possible. Mr. McGrath, did you intend now to go into the detailed calculation shown at the bottom of this chart 1, or later after you had gone more generally through all the rest of the charts?

A No, we can start with this chart and the same principle applies throughout.

Q I mean at this time did you intend to go into that figure of 1.5016 on Exhibit "140", Chart No. 1, I do not want to put you off your track, I just wanted to know whether at this stage you intended to go into the details of this figuration or did you not?

A I would prefer to start with the East and work to the West, start at Sarnia with the Illinois crude.

Q Just whichever way you think is best, whichever way you think it can best be done.

A I have here the Oil Weekly dated January 30th, 1939, which gives some data on the Illinois crude. On page 97 there is a table showing the average depth of the wells in the Illinois field as compared with, 1938 compared with 1936 and 1937. In 1936 the average depth was 1037; in 1937 2633; in 1938 2590. Now if I may read from this magazine.

only purpose for the el- ation up to 48' gravity?

A He might as well have left it at 46 gravity.

Q All right. Now in that [illegible] want to say about Chart No. 11?

A [illegible] is a general explanation of [illegible].

Q [illegible] Mr. Blodgett, if there is anything you think of to ask you to clarify it, because we [illegible] the complete language of 808? Mr. [illegible], did you intend now to go into the details [illegible] shown at the bottom of this chart 3, [illegible] you had [illegible] generally discuss [illegible] of the chart?

A [illegible] start with that chart and the legend [illegible].

Q [illegible] most of the time if you [illegible] figures of [illegible] exhibits. Chart [illegible] [illegible] I [illegible] know whether it [illegible] needed to [illegible] details [illegible] motion [illegible] you [illegible]

[illegible]

[illegible] with [illegible]

[illegible] whichever way you think [illegible], [illegible] you think it can [illegible] be done.

Q [illegible] have here the Oil weekly dated January [illegible], [illegible], which gives [illegible] data on [illegible] Illinois [illegible] there is [illegible] average [illegible] wells in the Illinois field [illegible] compared with [illegible] and [illegible] depth was 1037; in [illegible]

[illegible]

Q Yes.

A On page 98, under the heading of "Illinois Attracts More Interest".

Q It is an article in the Oil Weekly, is it?

A Yes.

Q Perhaps you will state something about it, who wrote it and just to identify it?

A It doesn't give the name of who wrote it, Mr. Frawley, it is just an article in this.

Q We have the page number of it?

A Yes.

"The Basin Area of Illinois continued its rampage, and furnished the state with an even more imposing discovery list than in 1937. From about 1905 until 1937 Illinois was considered a 'has been' area. The latter year saw the finding of eight important fields which resulted in an active drilling campaign. The past 12 months furnished sixteen new fields and many of the 1937 discoveries were extended materially."

I again read in the same article on page 102.

"Production in the State surpassed 100,000 barrels daily during the latter part of the year, whereas two years ago it was 5,000 barrels per day."

I again read:

"Because Illinois discoveries are being made at an average depth of 2590 feet they do not represent the expenditure required for exploration purposes in other territories. Moreover the

State is without proration laws and is much nearer to large consuming centres than either Oklahoma or Kansas. These factors all combine to give Illinois several advantages that indicate it will continue to expand in importance."

I intend to file this publication and I would like to call the Chairman's attention to page 52 of this publication and it shows the crude oil, a map of the crude oil producing areas in the United States which may be helpful.

Q You do not mind leaving that, do you?

A No.

Q You are calling attention to page 102, to this map and the notation at the top, on page 102?

A No I am sorry, sir, page 52.

Q This one?

A Yes, that is it.

THE CHAIRMAN: The magazine is also being filed I take it for the articles which the witness has referred to?

Q MR. FRAWLEY: Page?

A I have given the pages.

MR. FRAWLEY: We will file the whole issue then.

(OIL WEEKLY, JANUARY 30th, 1939, HERE FILED AS EXHIBIT "143")

WITNESS: Now with regard to the posted price of Illinois crude---

Q THE CHAIRMAN: Now before you leave the magazine, you read to us what some unknown author has

said in a magazine?

A Yes.

Q What do you know about it?

A Well I have never visited the field, Mr. Chairman, and I cannot speak with any authority.

THE CHAIRMAN: All right.

Q MR. FRAWLEY: All right, Mr. McGrath.

A With regard to the posted price of Illinois crude I am referring here to page 203 of the Oil and Gas Journal, dated January 26th, 1939, which shows $1.15 per barrel.

Q For a certain gravity?

A Yes. It runs all about the same gravity, about 37 or 38 gravity. In this Oil and Gas Journal there are also articles---

Q Before we go to the articles, do you not think we should have in the record now the posted field prices of the Illinois crude and we can do that by simply filing this issue of the Gas and Oil Journal?

A Yes.

Q And you can direct us to the page where those postings are?

A Yes, I have the page, 203.

Q I think this issue, you can use it again for some other purposes if you like but this issue now should be marked.

(ISSUE OF THE OIL AND GAS JOURNAL FOR JANUARY 26th, 1939, HERE MARKED AS EXHIBIT "144")

Q MR. FRAWLEY: Now did you want to refer to

something else in here?

A Yes, on page 139 of the Oil and Gas Journal Dated January 26th, 1939, there is an article on, there is another article on the development of the Illinois field which may be of interest.

Q You do not know the writer of it?

A A staff correspondent.

Q By a staff correspondent?

A Yes.

Q That is all you want to call attention to in that?

A Yes. Now with regard---

Q MR. FRAWLEY: Mr. McGrath, you know enough about the Oil and Gas Journal to say something about it, do you, as a journal?

A Yes, all of these journals I am filing are considered reliable by the oil trade. I would like to refer to page 17 of the National Petroleum News dated January 25th, 1939, to an article written by Allen S. James and the heading is "Bargains in Illinois Crude heard in the Mid-Continent."

and it states here if I may read it:

"One northeastern Oklahoma refiner, for example, has been offered a quantity of Illinois crude at 60 cents a barrel, while a large refiner on the Mississippi River has been offered crude at approximately 85 cents a barrel delivered at the plant, which gives a netback in the Illinois field of approximately 61 cents."

I would like to file that.

Q MR. FRAWLEY: Page 17 of the National

Petroleum News?

A Yes.

(NATIONAL PETROLEUM NEWS UNDER DATE OF JANUARY 25th, 1939 HERE MARKED AS EXHIBIT "145")

(Go to Page 3815)

A I would next like to deal with the situation at Sarnia.
Q Yes? Relating it to any particular chart?
A Relating it to the Turner Valley Crude for the Manitoba Area as shown on Chart 1.
Q Returning to Chart 1 for a more detailed explanation of it, is that the situation?
A That is right.
Q Chart No. 1 is Exhibit "140". All right.
A Could I distribute these?
Q Yes, what are you filing now?
A A statement showing details in arriving at the value of $.5936 per barrel for 48 gravity crude, in competition with Illinois Crude at $1.15 per barrel at the well.
Q I think if you read the heading it would be quite sufficient. Could you identify it by the heading?
A It is headed "Sarnia Refinery. Illinois Crude at $1.15 per barrel Well price vs. Turner Valley Crude to supply the proportion of the various products estimated for year 1939."

DOCUMENT IN QUESTION IS
NOW MARKED EXHIBIT "146".

Q You have read the title to it, and would you just in very plain language tell us what this represents. What is this prepared for?
A It is prepared for the purpose of showing the value of 48 gravity Turner Valley crude in the Manitoba Area in competition with the Illinois Crude at a $1.15 per barrel at the well.
Q Let me link it up with Exhibit "140", Chart 1. At the bottom left hand corner of Exhibit "146" appears the figure $ .5936. That is the same figure that appears

on the bottom right hand corner of Exhibit "140" ?

A That is right.

Q On Exhibit "140" it is the bottom right hand corner?

A Yes.

Q Now will you say what you have to say about it?

A Referring to the statement it shows the well price of Illinois Crude $1.15 per barrel. Buying Commission .05 dollars per barrel. Gathering and pipeage .3410 dollars per barrel. Receiving, storing and handling at Sarnia .0017 dollars per barrel, giving a cost.......

Q You skipped the Excise Tax?

A Excise Tax, 3%, .0360 dollars per barrel, giving a laid down cost of 1 barrel of Illinois Crude at Sarnia of $1.5787 per barrel. The next item on this statement is for the purpose of deducting from the value of the Illinois Crude the surplus fuel oil - not the surplus but the additional fuel oil and coke produced from the Illinois as compared with the Turner Valley crude. That is a deduction of .0768 per barrel. The next item of deduction is the freight supplying the Manitoba Area from Sarnia, as against Regina. It costs .1427 per barrel of crude to supply this area from Regina instead of Sarnia, leaving a figure of $1.3592, which is a value of .887 dollars per barrel, 45 gravity, Turner Valley Crude, and .039 dollars a barrel absorption naphtha. In other words, we start with 1 barrel of Illinois Crude and we deduct the fuel oil and coke contained in that and the freight saving supplying this from Sarnia, and the result is the value of Turner Valley crude and absorption naphtha, and we deduct the absorption naphtha from the calculation which is .1809

dollars per barrel, and the result is a value of .887 dollars a barrel of 45 gravity Turner Valley crude. That .887 barrels is worth $1.1783 per barrel. So 1 barrel of 45 gravity Turner Valley Crude is worth $1.3297 per barrel. Then there is a further deduction from the Turner Valley Crude to cover the cost of additional chemicals for treating, and that is .0274 cents per barrel and also the additional Ethyl lead required which is .0367 cents per barrel, giving a net value for 1 barrel at Regina of $1.2656 per barrel. We have come from Sarnia right through to Regina now. Then by deducting the freight from Calgary to Regina of .5320 cents per barrel, and cost of loading crude at Calgary of .05 cents per barrel, and pipeage and gathering .15 cents per barrel gives us a value at the well for 1 barrel of 45 gravity Turner Valley crude of .5336 cents. That is for 45 gravity. So by adding 6 cents to that .5936 cents gives us a value of 48 gravity which is the figure shown on Chart 1. Have I made myself clear, Mr. Chairman?

THE CHAIRMAN: Yes.

A We are still dealing with Chart 1. Now I would like to go into the price of .9437 cents, which is the value of 48 gravity crude at the well for Regina.

Q Just do the same as before. You are offering as an Exhibit - will you read what it is entitled?

A This is headed "Regina Refinery. Cutbank Crude with a Well Price of $.80, $90 and $1.00 vs. Turner Valley Crude to supply the proportion of the various products estimated for year 1939." Incidentally this statement has the .80 cents, .90 cents and $1.00. The one state-

ment has the three situations on it but we will deal with the .80 cent situation, or the first column.

DOCUMENT IN QUESTION IS NOW MARKED EXHIBIT "147".

Q Now what you are going to do. You are going to..... you have just finished in Exhibit "146" in analyzing the figure .5936 shown on Chart No. 1, Exhibit "120"?

A That is right.

Q You are now going to analyze the figure of .9437 shown on Chart No. 1, Exhibit "140"?

A That is right.

Q And you are going to do that by Exhibit "147", the first column?

A Yes sir.

Q Right.

A I refer to the first column on this statement, It shows the well price of 37 gravity Cutbank Crude at .80 cents per barrel. Gathering and loading .1250, Excise Tax 3%, .0240; Freight to Regina .7056 per barrel, giving a laid down cost for Cutbank Crude at Regina of $1.6546 per barrel. From this figure we deduct the value of the additional fuel oil produced from Cutbank crude as compared with production from running Turner Valley crude. This amounts to .154 barrels of fuel oil, or .1586 a barrel of crude. Taking $1.4960, which is the value of .785 barrels of 45 gravity Turner Valley crude, and .039 barrels of absorption naphtha. Now you deduct the absorption naphtha. The value of .039 barrels of absorption naphtha is .1809 dollars per barrel of crude, leaving a value of $1.3151 for .785 barrels of 45 gravity Turner Valley crude, or $1.6755 for 1 barrel of 45 gravity Turner Valley crude.

James McGrath.

From this is deducted the additional cost of chemicals for treating which is .0208, and additional Ethyl lead required which is .0390, giving a value of 1 barrel of 45 gravity Turner Valley crude at Regina of $1.615 per barrel. From this is deducted the freight Calgary to Regina of .5320 per barrel. Loading cost Calgary .05 per barrel. Pipeage and gathering .15 per barrel, giving a value for 1 barrel of 45 gravity Turner Valley crude at the well of .8837. The equivalent value of 48 gravity is found by adding 6 cents to this figure which gives you $.9437, which agrees with the Chart No. 1.

Q Fine. Now that is the only part of - you are just dealing with the first column, and what it shows as you go through?

A Yes.

Q The next one you have to offer is a statement entitled what?

A "Calgary Refinery. Cutbank Crude at $1.00 per Barrel Well Price vs. Turner Valley Crude to supply the proportion of the various products estimated for year 1939."

DOCUMENT IN QUESTION IS NOW MARKED EXHIBIT "148".

Q Yes?

A This statement, Calgary Refinery, starts at the Well Price of 37 gravity Cutbank Crude $1.00 per barrel. Pipeage and loading at Coutts .1850 per barrel. Excise Tax 3%, .0300 per barrel. Freight Coutts to Calgary .4410 per barrel, giving a cost of 1 barrel of Cutbank Crude at Calgary of $1.6560. From this is deducted the value of the additional fuel oil produced from Cutbank crude,

[illegible] chemical

for [illegible] which in .0206, [illegible] additions

required water is .0[illegible] values [illegible]

45 gravity [illegible]

per barrel. [illegible]

to depths of .5580 per barrel. [illegible] adding [illegible]

[illegible] per barrel. Those [illegible] gathering [illegible]

giving a value [illegible] of [illegible] gravity [illegible]

comes at the well of .8887. [illegible]

45 gravity is found by adding .6 [illegible]

which [illegible] you $.9437, which agrees [illegible]

1.

[illegible] of - you are just

[illegible] it shows as

go [illegible]?

[illegible] concrete [illegible]

[illegible]

Oct [illegible] Outbank [illegible]

Well Price [illegible] they made to [illegible]

of the various [illegible] for year [illegible]."

Year

This [illegible] starts [illegible]

of 37 gr[illegible]

and [illegible] Conn[illegible]

[illegible] to Ohio [illegible]

[illegible]

36 [illegible] 1.66 [illegible] deducted [illegible]

[illegible] additional [illegible]

compared with production from 46 gravity Turner Valley crude, or .157 barrels of fuel oil with a value of $.1570, and leaves $1.4990 as the value of .85 barrels of 46 gravity Turner Valley crude. The value of 1 barrel is $1.7633. The Southern part of the Province was formerly supplied by Cutbank crude processed at Coutts. In order to reach this area from Calgary, there is an additional freight item which has to be deducted from the value at Calgary. This amounts to .0860 per barrel. Additional chemicals for treating is also deducted, .0207 per barrel, and there is a deduction for the additional Ethyl lead required which is .0447 per barrel, giving a value of 1 barrel of 46 gravity Turner Valley crude at Calgary of $1.6116 per barrel. By deducting pipeage and gathering of .15 cents per barrel, it shows a value of 1 barrel 46 gravity Turner Valley crude at the well of $1.4616. By adding 4 cents to this figure we arrive at $1.5016 per barrel, which is the equivalent value of 48 gravity. This $1.5016 per barrel agrees with Chart No. 1.

Q That completes everything you have to say about Exhibit "140", Chart No. 1?

A Yes.

Q And just see if I can make a little resume for you. Chart No. 1 shows $.5936 being the value of the Turner Valley crude as against the Illinois Crude for the Manitoba Area?

A Yes.

Q Using the well price, the posted price for that Illinois Crude of $1.15 and a posted well price of Turner Valley Crude of.......

James McGrath.

MR. NOLAN: Oh no.

Q MR. FRAWLEY: Of what, Mr. McGrath?
Or is that not right?

A What is that?

Q I say .5936 shows the value of Turner Valley crude as against the Illinois Crude for the Manitoba Areas?

A .5936 at the well in Turner Valley. That is at the well.

Q Chart No. 1 shows that the value of Turner Valley crude at the well?

A Yes, at the well.

Q Is .5936, or about 60 cents at the well, to serve the Manitoba Area in competition with the Illinois Crude at the posted well price of $1.15?

A That is right.

Q And running through it it also shows that the value of Turner Valley crude at the well is .9437 as against Cutbank crude for the Regina area?

A You mentioned at the well did you?

Q Yes, at the well?

A Yes.

Q The detail of that is shown on Exhibit "147"?

A Yes.

Q And Chart No. 1 lastly shows that the value of Turner Valley Crude at the well is $1.5016 or a little better than a $1.50 as against Cutbank Crude for the Calgary Area, taking Cutbank Crude there at the posted price of?

A $1.00 per barrel.

Q $1.00 per barrel?

A Yes.

Q Now for the figure before that, .9437, being the well price of Turner Valley crude as against Cutbank for the Regina Area, that takes a Cutbank posted price of what?

A 80 cents per barrel.

Q I do not know whether that will help or not but it clarifies my mind. All right, what do you want to proceed with next?

A I mention again this No. 1 chart shows the barrels of Turner Valley Crude daily required for each of these areas.

Q It shows your estimated requirements for 1939?

A Yes. It is on that. In connection with the Illinois crude I may say that it has displaced the Mid-Continent Crude, and at the present time we are processing quite a large quantity of it at Sarnia, and it will continue to increase until possibly all the Mid-Continent crude will be displaced by Illinois for the operations at the Sarnia Plant, except in cases for the products which can be made from the Mid-Continent crude and which cannot be made from the Illinois Crude.

Q Have you the figures about that? What is the daily through put at Sarnia?

A Oh, an average of approximately 24,000 barrels.

Q Up until the Illinois crude became important it was running Mid-Continent crude?

A Yes.

Q And that reaches your Sarnia Refinery how?

A Through the pipe line.

Q How is it acquired by the Imperial Oil Company for its Sarnia Refinery?

James McGrath.

A It is bought through our agents, The Transit & Storage Company in the States.

Q It is bought by your purchasing agents, The Transit & Storage Company? It is bought from whom? Have you one customer?

A No, I have not got the details of that Mr. Frawley, I am sorry.

Q It comes through a pipe line all the way to Sarnia?

A Yes sir.

Q Now with a partial displacement by Illinois how much Mid-Continent are you running?

A I can put it this way, we are running between three and four thousand barrels a day of Illinois crude at the present time. We expect by summer it will be up to 10,000 or 14,000 barrels a day.

Q All right. Do you want to say anything more of a general nature about Illinois crude now?

A No.

Q Then we go to Chart Number 2?

A Chart Number 2. Chart No. 2 is the same picture, except the value for 48 gravity Turner Valley crude at the well for Regina is based on .90 cents per barrel for Cutbank crude.

Q Mr. McGrath, do you mind if I go back to Chart No. 1 to get the full meaning?

A All right.

Q There is a figure at the bottom of the page on the right hand side of $1.0735?

A Yes.

Q What does that figure mean exactly?

A That is the average value of the three areas based on

James McGrath.

barrels of crude required for those areas, and the relative prices in those areas.

Q Putting it another way that means that giving ~~a~~ full and complete effect to all the factors indicated on Chart No. 1, and then giving full effect to the Illinois competition?

A Yes.

Q That the posted price, the well price, namely the posted price of 48 gravity crude in Turner Valley would be $1.07?

A The average for the three areas is $1.07.

Q That is correct?

A That is right.

Q And that is how you arrive at the posted price?

A That is how......

Q Taking the average values of all three areas?

A That is right.

Q Your posted price would be $1.07?

A Yes.

Q That is as compared with an existing posted price of $1.30?

A That is right.

Q And which figure in turn was arrived at by a computation not dis-similar to the one you have given us this morning, but not taking into account any Illinois crude?

A That is right.

Q Merely comparing Turner Valley crude in competition with Cutbank crude from the Regina Refinery, to include the whole of the Manitoba market?

A No, it was in competition - in the Manitoba market it was in competition with Mid-Continent.

James McGrath.

Q As far as Manitoba is concerned it was in competition with Mid-Continent through Sarnia, the Manitoba Area?

A Yes.

Q That is what Chart No. 1 means. It would mean a drop of the posted field price on 48 gravity crude from $1.30 to $1.07 and presumably it would mean - getting down to what we actually have at the moment - presumably it would mean a drop on the present refinery run of 43 to 43.9 of $1.20 to, you have not made a computation on that?

A No.

Q You would not be able to say exactly?

A No, I would not be able to say exactly.

Q All right.

A The price of $1.07 is not the posted price. It is the average value. It depends on whether the producers wish to take that.

Q We will go into all these things, but giving full effect, with no limitation and no qualification entering into it at the moment, that is all your Company could pay for Turner Valley Crude is $1.07?

A If it is to supply these areas.

Q If full effect - if your picture were translated into physical fact?

A That is right.

MR. NOLAN: At the moment your 48 gravity is $1.07. You could arrive at the other figure by deducting 10 cents.

MR. FRAWLEY: It becomes automatic, once you have arrived at the point where you have, that is the price of $1.07 for 48 gravity crude, would

James McGrath.

it not just go down in its normal drops of two cents?

A Two cents per barrel.

Q MR. NOLAN: That is ten cents less?

A Yes, 10 cents.

Q MR. FRAWLEY: We can calculate that and bring your posted field price to 97 cents as against our present posted price for 43 gravity of $1.20?

A That is right.

(At this Stage the Hearing was adjourned until 2 P.M.)

....

2:00 P. M. Sesssion.

(Examination of Mr. McGrath continued by Mr. Frawley;)

Q How far had we got, Mr. McGrath, this morning?

A I believe we were starting with chart 2.

Q That is right, and you were to produce, do you produce any figurations worked out under chart 2?

A The detailed statements which were presented before, cover all the charts.

Q That is right, in different columns?

A Yes.

Q Now, you want to refer to, you were going to start to explain?

A Chart No. 2.

Q Chart No. 2?

A Chart No. 2 is practically the same as Chart No. 1 except in Chart No. 1 we use the basis of 80 cents a barrel for Cutbank crude at Regina and in Chart No. 2 we have used 90 cents per barrel.

Q Yes?

A Now, do you wish me to go through all the details the same as I did before?

Q Well, I think it would be as well?

A Now, that is, there are detailed statements, Mr. Frawley.

Q No, I do not think you need to read through every item in the detail, but link it up and tell us where we will find the break-down of .6203, which is presumably where you start on Chart 2?

A That would be on Exhibit "146"?

Q On Chart No. 2 at the bottom of the page, the Sarnia Refinery chart.

THE CHAIRMAN: Oh, yes.

Q .6203, in other words, dealing with, explaining Chart No. 2 in the same order as you explained Chart No. 1?

[illegible]

A Yes.

Q Now, you send us to Exhibit "146"?

A Yes.

Q The second column?

A That is right.

Q Now, will you just concisely tell us what the second column of Exhibit "146" shows?

A As the details, Mr. Frawley?

Q No, just the statement of the result, if you like?

A A barrel of 45 gravity crude at the well in comparison with Cutbank or with Illinois crude at $1.15 a barrel at the well, for the Manitoba area, is valued at .5603 per barrel, which is equivalent to .6203 per barrel.

Q Just to endeavour to get the most understandable language, Mr. McGrath, is this right, that Turner Valley crude at the well is worth to your company .6203 cents, for the Manitoba area as against Illinois crude from the same area at 1.15 posted field price?

A Yes.

Q And competing with Cutbank crude for Regina based on 90 cents?

A You see, the areas change, the 80 cents, 90 cents, and $1.00.

Q I am only talking at .6203?

A That is right.

Q And that is the comparison of the, of what the value at the well of Turner Valley crude is for the Manitoba area compared with, first with Illinois crude at 1.15?

A Yes.

Q Or only with that?

A With that.

Q With that alone?

A No, and 90 cent crude for Regina.

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

Q And 90 cent crude for Regina?

A 90 cent Cutbank crude for Regina.

Q Well, now, do you mind if I go back to Chart 1 and see if there is any complication there. Can I say, do I understand that the .5936 ?

A Yes.

Q Or just about 6 cents?

A Yes.

Q Is the value of Turner Valley crude at the well for the Manitoba area as against Illinois crude at 1.15 posted?

A And Cutbank crude at 80 cents.

Q And Cutbank crude at 80 cents?

A That is right.

Q There are two things which have to be taken into account?

A Yes.

Q At 80 cents, and then let me, still dealing with Chart No. 1, Exhibit "140", that .9437?

A Yes.

Q Or about 94½ cents is the value to your company of Turner Valley crude at the well for the Regina area as against Cutbank crude at a well price of 80 cents?

A That is right.

Q And those are the only two competing factors there?

A Exactly.

Q And then let us look on Chart No. 1, 1.5016 is the value to your company of Turner Valley crude for the Calgary area as against Cutbank crude at a well price of $1.00?

A That is right, that is 48 gravity in all cases.

Q 48 gravity in all cases?

A Yes.

Q Now, without entering into any further discussion about

them or questioning you about them, you might proceed now to finish up Chart 2?

THE CHAIRMAN: I dare say you all understand this perfectly but I do not.

MR. FRAWLEY: I am anxious that you should.

THE CHAIRMAN: Now, there is Chart No. 1 spoken of, which is Exhibit "140" and the heading is "Average value of Turner Valley crude oil at the well for refining at Calgary and Regina refineries".

MR. FRAWLEY: Yes.

THE CHAIRMAN: Now, that is what is going to be shown by this Chart, I take it, when one examines it all?

MR. FRAWLEY: Yes, that is the purpose of this Chart.

THE CHAIRMAN: Turner Valley crude oil at Turner Valley for refining at Calgary and Regina refineries?

MR. FRAWLEY: That is right.

THE CHAIRMAN: And to arrive at that figure for the purposes of this Chart you find out what Cutbank crude and Illinois crude can be put into Calgary and Regina for.

WITNESS: No, Illinois crude into the Manitoba area and Cutbank crude into the Regina and Calgary area.

THE CHAIRMAN: Yes, for reasons of carriage charges, I suppose you are not considering Illinois crude beyond Manitoba?

A No, sir, that is, this line between the yellow and the green is the economic line dividing the two charts.

Q I see?

A Yes.

THE CHAIRMAN: The picture then with the colorings

of red and green and yellow are to show the zones within which the particular oil under discussion may be advantageously put on the market?

MR. FRAWLEY: That is right.

THE CHAIRMAN: So you are arriving at the value of Turner Valley crude oil to your company in Turner Valley?

A That is right.

Q Bearing in mind that it can only be taken to the red and green area in your estimation, economically that is, bearing in mind that it can be only an economically sound thing to take it to the places marked red and green, the areas marked red and green?

A Well, this picture shows the three areas, Mr. Chairman, and the figures I have given you.......

THE CHAIRMAN: As I understand you, Turner Valley crude oil cannot be economically brought into the yellow area, is that right?

MR. NOLAN: Nor into the green area.

THE CHAIRMAN: Nor into the green.

MR. NOLAN: Just into the pink.

WITNESS: On to-day's prices.

MR. NOLAN: In other words, these colored areas are the districts which these three different refineries can economically serve and are set up with these economic boundaries one as against the other?

THE CHAIRMAN: Yes. I observe that we have, for example, Cutbank crude at two prices.

MR. FRAWLEY: Well, that will have to be explained, sir.

THE CHAIRMAN: I want to get the theory of it, the theory on which we are approaching it. You have all studied it and understand it but we have not.

MR. NOLAN: Perhaps, I could help a little, with one observation, may I make it?

MR. FRAWLEY: Yes.

MR. NOLAN: These charts are an attempt to go down to the well in the Illinois field and take a barrel of oil out of that well and pay its way all along the line until you get into the Manitoba market.

THE CHAIRMAN: Yes.

MR. NOLAN: Then, when you find yourself in that Manitoba market, you take an imaginary barrel of Turner Valley crude and you come back on the train with that barrel of oil up here to Calgary and you unload it and you put it through the pipeline and you go out into the field and you find what that well price has to be at that field in Turner Valley to compete with a barrel of Illinois crude that was laid down in this Manitoba market, is that right, Mr. McGrath?

A That is right.

THE CHAIRMAN: Will that not depend upon how far, we are assuming,of course, that the oil is of the same gravity in each case?

MR. NOLAN: It has been adjusted to take care of that. You will notice in some instances it only took .85 of a barrel of Turner Valley to do the work of a barrel of Montana crude.

THE CHAIRMAN: You are interested in how far you can bring the one east and the other west?

MR. NOLAN: Yes, and that shows, the yellow, how far west you can economically come with the Illinois crude. In other words, the boundary between the yellow and the green.

THE CHAIRMAN: At any given price.

MR. NOLAN: At the 1.15 Illinois price, which is the posted field price of Illinois.

THE CHAIRMAN: Yes.

MR. NOLAN: But taking into consideration what encroachment on that area might be made by the green portion of the map which is being supplied by the Cutbank crude from Montana because it comes into the picture too. You see, it pushes back the yellow area.

THE CHAIRMAN: Yes.

MR. NOLAN: And it is by reason of the pushing east of the Montana crude and the pushing west of the Illinois crude that there becomes a line of demarkation as between those two areas beyond which one or the other may not economically go and that is the boundary line between the yellow and the green area, and that, of course, is not constant, on all the charts, because you will observe that when there is a lower price for Montana crude, rather, a greater price for Montana crude....

A As in ~~Chart 2~~.

Q MR. NOLAN: As in Chart 2, the green area is where, it shrinks; you see, the green area shrinks as the price of Montana goes up.

MR. FRAWLEY: Let me make one statement which I think helps ~~too~~, that on these figures on Cutbank at $1.00, I am reading from Chart No. 1, Cutbank at $1.00, and of Cutbank at 80 cents for Regina, and 1.15 for Illinois for Sarnia, the value to the Imperial Oil of Turner Valley crude, if we take in all of the colored area, is 1.07; in other words, the crude will stay where it is, but the value at the Turner Valley well is only 1.07.

MR. NOLAN: That is right.

MR. FRAWLEY: 1.0735, that is really the result.

MAJOR LIPSETT: In other words, Mr. Frawley, Turner Valley can compete in the yellow area with crude oil at the well at .5936?

MR. FRAWLEY: Quite right. Mr. McGrath says it is only worth to him 1.07 if it is going to enter that territory.

MAJOR LIPSETT: No, it is only worth .5936 for that particular area.

MR. FRAWLEY: For that portion of it, but, you see, it is worth a lot more than they are getting for it, it is worth 1.50 for the Calgary area alone, and it all averages up, so that it is worth 1.07 at the well if it is going to hold the area which it is now occupying.

Q MAJOR LIPSETT: Is that having regard to the quantities which go to these three refineries?

A Yes.

Q It is not just one?

A No, sir.

Q THE CHAIRMAN: Where did you get the daily barrels, Mr. McGrath?

A They are based on the estimated sales for the year 1935, sir.

Q MR. NOLAN: 1939, you mean?

A 1939, sir, I am sorry.

Q THE CHAIRMAN: Made by your own company?

A Yes, this just represents our own company's figure.

Q MR. FRAWLEY: Those just represent the Imperial, sir.

THE CHAIRMAN: Quite so.

Q THE CHAIRMAN: What would be the effect of a greater throughput than you anticipate, a greater sale,

you say that is all the market will absorb and that you will get your share?

A Yes.

Q Your total share of the market, you think?

A Yes.

Q MAJOR LIPSETT: It does not take into account the British American figures or anything like that?

A No, this is the Imperial Oil.

MR. FRAWLEY: No, this is just Imperial entirely.

Q MR. FRAWLEY: Perhaps you can tell us now what, you have worked this out as your percentage of the market?

A No, I have not, I have just taken our estimate, I have not taken the whole market.

Q You have not taken the whole market, you have not estimated the whole market and taken a percentage of it?

A No, that is just our own market.

Q All right. Now, Mr. McGrath, we were leaving Chart 1 now and going to Chart 2, and you had covered part of Chart 2, you have told us that the .6203 is the value of Turner Valley crude at the well for the Manitoba area as against Illinois crude at 1.15 and 90 cents for Cutbank crude at Regina, 90 cents?

A That is right.

Q Now, the break-down of that, or the break-down of it, or the building up of it?

A The details of it.

Q The details of it are in the second column of Exhibit "146"?

A Oh, yes, at Sarnia, that is right.

Q Now, is that all you want to say, I mean for your part, I

do not think we need further analyze it?

A No, it is fundamental.

Q THE CHAIRMAN: The further they go the price gets lower?

MR. FRAWLEY: That is right.

Q MR. FRAWLEY: We will ask Mr. McGrath about that. Now, the next figure is 1.0744 on Chart 2; now, will you tell me where the break-down of that is?

A That is the value of one barrel of 48 gravity crude at the well for Regina refinery in comparison, in competition with Cutbank crude at 90 cents as shown on Exhibit "147".

Q For Regina as against Cutbank crude?

A At 90 cents per barrel at the well.

(Page 3837 follows.)

Q As against 90 cents Cutbank crude for Regina. That is all, is it? It is just those two factors playing together?

A Yes.

Q All right. Where is the detail of that, Mr. McGrath?

A Exhibit "147".

Q Exhibit "147", the second column?

A Yes.

Q THE CHAIRMAN: You say the value, let me be clear as we go along. The value to Imperial means that at that point, whatever point may be spoken about, it is of that value because they can buy it for that from somebody else?

MR. FRAWLEY: May I put it this way. If you could by taking that last figure of $1.0744 cents and relate it, putting it in all the different ways possible, so we can understand it. Assume you can buy Cutbank crude at 90 cents, then you can afford to pay $1.0744 for 48 gravity crude in Turner Valley?

A Yes.

Q For 6,586 barrels to serve the Regina territory?

A That is right.

Q Because when you build it up at Regina it is worth so many dollars to you. It is worth so much to you in dollars and cents, when you build up 90 cents Cutbank crude at Regina it is worth so much to you?

A That is right.

Q And works out the same?

A Yes.

Q They reach the same dollars and cents at the Regina refinery starting with 90 cents in Cutbank and $1.0744 Turner Valley?

A After you adjust for the difference.

Q After you have made all your necessary adjustments?

A Yes.

Q So that without getting into these variables, or to question you about them.....I say, if your company can buy 6,586 barrels daily for its Regina requirements in Cutbank at 90 cents, then $1.07 is the correct figure?

A That is right.

Q And if you cannot buy it at 90 cents it throws out the calculation, of course?

A We have shown 80, 90 and $1.00.

Q To that calculation?

A Yes.

Q Well, now, am I right about that, I say assuming that the $1.07 figure....on 80 cents it is 94 cents, going back to Chart No. 1?

A Yes.

Q And you could pay $1.07 and a fraction for your Regina requirements if you could get it in Cutbank at the well for 90 cents?

A That is right.

MR. NOLAN: I wonder if that is the right way of putting it. Can we put it this way? If you were able to get crude at Turner Valley at $1.07 a barrel you could keep out of the Regina market the Montana crude at 90 cents?

A You could keep it out?

Q You could successfully compete with it?

A Yes, you could successfully compete with it.

Q That means keeping it out?

A Yes.

Q Does not that mean keeping it out? If we can get our crude

at Turner Valley at $1.07 and Cutbank is worth 90 cents?

A Yes.

Q The market still belongs to Turner Valley?

A That is right.

MR. FRAWLEY: There may be all kinds of ways of putting it. Mr. Cottle, who knows more about it than I do, says that Turner Valley crude for their Regina requirements at $1.07 and Cutbank crude for their Regina requirements at 90 cents, your laid down refinery cost is identical?

A That is right, for the relative products.

Q For the products that you want?

A Yes, that is right.

Q The Lord forbid we get into that for the moment, eh? Now, we have shown the $1,07 on Chart No. 2. The next going up is $1.50?

A Yes.

Q What is that?

A That is the value of 1 barrel of 46 gravity Turner Valley crude at the well of $1.4616 or the equivalent of $1.5016 for 48 gravity in competition with $1.00 a barrel for Cutbank crude for the Calgary refinery.

Q Now, perhaps, the obvious question to ask you - it is the proper place to deal with it but if it is not defer it so far as I am concerned, It strikes one as strange you should be calculating on a well price of $1.00 per barrel for your Calgary requirements of 4,657 barrels daily and 90 cents for your Regina requirements of 6,586 barrels daily. Why do you make the differential there?

A If you follow these charts there are three pictures at Regina, 80 cents, 90 cents and $1.00, and $1.00 at Calgary.

Now, if we continued to run, which we will, Turner Valley at Calgary, then it is possible to buy Cutbank crude at lower than $1.00.

Q Now, wait, say that again. If you continued......

(BY THE REPORTER - reading) "A If you follow these charts there are three pictures at Regina, 80 cents, 90 cents and $1.00, and $1.00 at Calgary. Now, if we continued to run, which we will, Turner Valley at Calgary, then it is possible to buy Cutbank crude at lower than $1.00."

A That is why we put the Regina at 80 cents, 90 cents and $1.00, to show the three pictures. Lower than $1.00.

THE CHAIRMAN: Are you quite clear, Mr. Frawley?

MR. FRAWLEY: No. I wondered why I was getting into something else. I would have thought there was a price for Cutbank crude, whatever it is, there is a price for it?

A Yes.

Q It does not matter to the producer when he arrives at a price with you as to where it is going, where you are taking it, to Calgary or Regina or Kalamazoo. It is there?

A If there was no field in Turner Valley.

Q Yes?

A Then we would have brought the supplies from Cutbank for this Province.

Q Yes?

A And we would pay probably $1.00 for it, or more.

Q When you say that, is that something you would be able to pay or you just would find that to be the price, you mean. It is difficult to explain it to the uninformed, is it not?

A Yes. The fact of the matter is we have two fields. We have one at Turner Valley and one at Cutbank.

Q Yes?

A Turner Valley is supplying that zone, that puts a surplus in the Cutbank market, Cutbank could be bought for Regina from 80 cents to $1.00.

Q You say what the present known of the industry and the known of the field down there is doing, and the surplus and so on, you say your company could buy it at - could buy crude in Cutbank at what price?

A We have indications it has been sold as low as 75 cents per barrel. We have put it on the basis of 80 cents, 90 cents and $1.00 for the guidance of the Commission.

Q So they can take it on the basis you could buy it at 80 cents; on the basis you could buy it at 90 cents and on the basis you could buy it at $1.00?

A That is right.

Q It does different things in accordance with the price you start with?

A Yes.

Q Naturally. We may want to come back to some of these things.

THE CHAIRMAN: It is purely supposititious. If the price is 80 cents......

MR. FRAWLEY: It will do so much. I wanted to question Mr. McGrath.....

THE CHAIRMAN: And if a dollar and a quarter something else?

MR. FRAWLEY: Yes.

THE CHAIRMAN: In due course will someone say what, in fact, the price is?

MR. FRAWLEY: Yes, that is a pertinent observation.

THE CHAIRMAN: These are very nice calculations. I suppose someone will show that they have relation to the

actual price.

MR. FRAWLEY: I wanted to discuss some of these kind of things with Mr. McGrath but I thought we might get the charts in and complete the calculations and we could then go into some generalities?

A Yes.

Q Just give it to me again. The dollar and a half is the value of Turner Valley 46 gravity as against Cutbank 46 at?

A $1.00 per barrel, as shown on Exhibit "148".

Q For the Calgary area?

A That is right.

Q All right. Now, does that complete chart No. 2?

A It does.

Q Now, we go to chart No. 3, Exhibit "142"?

A Yes.

Q Do you want to work from the bottom up, in that way too?

A Exhibit "146", the third column.

Q Yes. Just let me interject. You are proceed to show us the detail of the bottom righthand figure on chart No. 3, namely, .6499?

A Yes.

Q There is that figure first, and what is the detail of it. Where is the detail of it?

A The detail, it is the equivalent value of 48 gravity crude, Turner Valley crude at the well for the Manitoba area in competition with Illinois crude at $1.15 per barrel at the well. Exhibit "146".

Q In all of these charts you are making Turner Valley compete in the Manitoba area with Illinois crude. When I say making it compete, your calculations are worked out on the basis of having Turner Valley compete for the Manitoba area

against Illinois crude?

A That is right.

Q Just tell me why this price runs from - or the value to your company of Turner Valley crude for the Manitoba area ranges from 59 cents in Chart No. 1 to 62 cents in Chart No. 2 and 64 cents in Chart No. 3?

A It is the effect of the 80 cent and 90 cent crude at Regina.

Q At Regina?

A Yes. It moves the line.

Q It is the Turner Valley crude as against the Illinois crude in all instances with the Manitoba area but the variation is brought about because of the other competing factor, putting assumed prices on Cutbank crude serving Regina?

A That is right.

Q Now, the next figure is $1.2060 and that is what?

A That is the equivalent value of 48 gravity crude at the well for the Regina refinery in competition with Cutbank crude at $1.00 per barrel.

Q Yes. What is the other figure which always remains the same?

A That is shown in Exhibit "147."

Q That is the last figure, the detail of $1.20 on Exhibit....

A "147".

Q Now, the $1.5016 is the value of Turner Valley 48 gravity at the well for ......

A Calgary.

Q For the Calgary area as against Cutbank?

A Cutbank at $1.00 per barrel. That is on Exhibit "148".

Q That figure of $1.5016 is the same on all the charts, Nos. 1, 2, and 3?

A That is right.

Q Because the Cutbank crude you show as competing against the

Turner Valley crude for the Calgary area, and is shown throughout at $1.00 a barrel?

A That is right.

Q The Cutbank crude you show competing against Turner Valley crude for the Regina requirements at 80 cents and 90 cents?

A And $1.00.

Q Each, for Regina, you show it at the three figures?

A Yes. That is the one we have just finished, Chart 3, 80 cents, 90 cents and $1.00.

Q Wait now. You do not find that all on Chart 3, Mr. McGrath. I see now that the Cutbank crude you wished to compete with Turner Valley crude for Regina requirements is what, the well price. Cutbank crude?

A Regina?

Q For Regina, to compete against Turner Valley crude?

A Chart No. 1 it is 80 cents, and Chart No. 2 it is 90 cents a barrel and on Chart No. 3, $1.00 a barrel.

Q Yes, I misunderstood you. That is shown on the three charts and not on Chart 3, as I understood you a minute ago?

A That is right.

Q Will you explain the computation in the righthand corner of Chart No. 3, Exhibit "142"?

A In the Manitoba area it requires 2,649 barrels per day of Turner Valley crude. That is how much it would take to supply that area.

Q Yes?

A Then the average value of 48 gravity crude at the well for that area is .6499 or approximately 65 cents per barrel. Now, divide that into zones, that area into zones. You will observe the righthand side there is 356 barrels a day. That is the first zone east of the Regina line. That is worth 98 cents. The next zone is 356 barrels worth 75 cents.

The next is 73 cents, the next is 73 cents, the next is 73 cents, the next is 68 cents. Then you get down to less than 13 cents, only worth 13 cents. As you get closer to Sarnia the crude gets of less value.

Q It is only on Chart 3 you broke down that price?

A Yes.

Q The same thing, I suppose, applies to them all, but you just did it on the one?

A Yes, to illustrate.

Q Just to explain the computation in a little more detail?

A Yes.

Q You really did not do it to make it more confusing?

A No, I really did not;

Q The same thing, I suppose, applies to the figure which is found by looking at Chart 3 again, 1.2060, and that also is an average figure at......

A At Regina.

Q That is at Regina?

A That is at Regina. That is for....you see, you are changing refineries there. You are changing from Sarnia and we have taken the Manitoba area.

Q What you mean is the gasoline comes up from Sarnia to Fort William and it goes to Winnipeg. But you start to market it all the way from Fort William to Winnipeg?

A That is right.

Q And there is a point in there about Kenora you begin to market the first of it?

A That is right.

Q The first of it from the Regina end; and that is the situation, the first of it from the Sarnia end and the last of it from the Regina end?

A That is right.

Q Now, are you finished with your figurations?

A Charts Nos. 4, 5 and 6.

Q We had better take them one by one and mark them. We have not got them in yet. What is Chart No. 4?

A This same situation for Sarnia, Regina and Calgary has been shown at $1.30 per barrel, which is the posted price.

Q Tell us what it is and we will mark it as an Exhibit?

A It is the average value Turner Valley crude at the well for refining at Calgary and Regina refineries in competition with Cutbank crude, 80 cents a barrel for Regina and Illinois crude at $1.15 a barrel at Sarnia, and using the Turner Valley well price of $1.30 per barrel for 48 gravity refined at Calgary.

(CHART IN QUESTION IS NOW MARKED EXHIBIT "149".)

Q Will you tell us now, Mr. McGrath, what you said a moment ago? Explain this Chart?

A No. 4 is the average value of Turner Valley crude at the well for refining at Calgary and Regina refineries in competition with Cutbank crude at 80 cents per barrel for Regina and Illinois crude at $1.15 per barrel for Sarnia, using the Turner Valley well price of $1.30 per barrel for 48 gravity, refined at Calgary. It is just to show the picture based on to-day's basis of well prices.

Q It is a computation, Mr. McGrath, based upon the actual present posted field prices in Turner Valley of 48 gravity?

A For Calgary.

Q You take that for Calgary. It is the posted price?

A Yes.

Q $1.30 is the posted price on 48 gravity Turner Valley crude now?

A That is right.

[illegible]

[illegible]

[illegible]

Q Wherever it goes?

A Yes. That is the average posted price.

Q It is the posted price?

A That is to-day's posted price.

Q That is right. To-day's posted price. But you say in this calculation you are taking it for the Calgary requirements only?

A Yes.

Q For the Calgary requirements only. But it is done on a different basis altogether, is it not? You start with the posted price?

A That is right.

Q Why have you done this Chart No. 4?

A Just to give you the picture assuming that you wish to look at it from to-day's posted prices, that is for Calgary.

Q In a word, how does it work out. What is this $1.01?

A On No. 4?

Q On No. 4, yes.

THE CHAIRMAN: Did you say $1.01, on No. 4?

MR. FRAWLEY: Yes, at the very bottom.

THE CHAIRMAN: Oh, yes.

Q MR. FRAWLEY: What is that $1.01?

A That is the average value of Turner Valley crude at the well for refining at Calgary and Regina refineries in competition with 80 cents per barrel for Cutbank crude at Regina and $1.15 a barrel for Illinois crude at Sarnia, using for the Calgary refinery $1.30 per barrel, to-day's posted price.

Q Then it means this, that if you are paying $1.30 for your Calgary requirements in Turner Valley and you are paying 80 cents for the Regina requirements at Cutbank and $1.15 for your Manitoba requirements in the Illinois field?

A Yes.

Q Then you could afford to pay, or the value to you of Turner Valley crude, over all of that area, would be $1.01?

A That is right.

Q In other words, you could pay $1.01 and still serve the red, green and yellow areas and meet the competition of Cutbank crude at 80 cents, and Illinois crude competition at $1.15?

A And pay $1.30 for your Calgary requirements.

Q That is right. Although Charts Nos. 1, 2 and 3 show Calgary in competition with Montana crude at $1.00 as worth $1.5016?

Q MR. COMMISSIONER LIPSETT: Is that right? You can pay $1.30 at Calgary and $1.01 other places?

MR. FRAWLEY: No. He could only pay $1.01 for it all.

MR. COMMISSIONER LIPSETT: You said to him he still could pay $1.30.

MR. FRAWLEY: I was not putting that to him correctly at all. Paying $1.01 for all Turner Valley crude serving into the Calgary area, the Regina area and the Manitoba area, paying $1.01 for all of that, it is worth about 59 cents as against Illinois crude at $1.15?

A That is right.

Q And 94 cents as against 80 cents with Cutbank crude and $1.30 for your Calgary requirements?

A Yes.

Q It is certainly putting it in on its various angles.

A That is the purpose of that, Mr. Frawley.

Q You haven't any particular figuration of this, have you?

A No.

Q I mean, no detail on that?

A No.

Q Will you give us 5 and 6 now?

A Yes.

Q Better tell us about this, Mr. McGrath, will you take your Exhibits "146", "147" and "148" and show us where they do show the detail for Chart 4?

A Mr. Frawley, if you refer to Exhibits "146", "147" and "148", it shows the Chart numbers right on the top at the head of the statements.

Q Yes. That is true. I just wanted you to say so, so it will be on the record?

A Yes, it shows right there.

Q That is all right. Now, then, Chart 5. Describe it first and we will mark it?

A Chart No. 5 is the average value of Turner Valley crude at the well for refining at Calgary and Regina refineries in competition with Cutbank crude at 90 cents per barrel for Regina and Illinois crude at a well price of $1.15 per barrel for Sarnia, and using the Turner Valley well price of $1.30 for 48 gravity crude, refined at Calgary.

Q That is Chart No. 5 and that will be Exhibit......

(CHART IN QUESTION IS NOW MARKED EXHIBIT "150".)

Q Chart No. 5 would appear to be exactly the same as Chart No. 4 in every particular except that you take now a well price of Cutbank crude of 90 cents in Chart No. 5 and you take a well price of 80 cents for Cutbank crude in Chart No. 4?

A For Regina.

Q For Regina?

A That is right.

Q And it works out that $1.0120 in Chart 4 becomes in Chart 5, $1.0762?

A That is right.

Q Because of the 10 cent increase in price at the well for Cutbank crude for Regina?

A That is right.

Q Chart No. 6?

A Chart No. 6 is the average value of Turner Valley crude at the well for refining at Calgary and Regina refineries in competition with Cutbank crude with a well price of $1.00 per barrel for Regina, and Illinois crude at a well price of $1.15 per barrel for Sarnia, using Turner Valley well price of $1.30 per barrel for 48 gravity crude, refined at Calgary.

(CHART IN QUESTION IS NOW MARKED EXHIBIT "151".)

Q Now, Mr. McGrath, it appears that Chart No. 6 is identical with Chart No. 4 and No. 5, except that in Chart No. 6 you show a well price at Cutbank of $1.00 as against a well price in Chart No. 5 of 90 cents and a well price in Chart No. 4 of 80 cents for Regina?

A Yes.

Q And it works out then that you could afford to pay $1.1357 for 48 gravity crude to serve the Calgary, Regina and Manitoba areas, because the value to you for the Manitoba area is .6499 a barrel, as against Illinois crude at $1.15?

A Yes.

Q And the value of Turner Valley crude serving Regina, becomes $1.2060 as against Cutbank crude at $1.00 for Regina, using , as you have said, the present posted price on 48 gravity crude of $1.30 in Turner Valley?

A That is right.

[illegible]

[illegible]

[illegible]

[illegible]

Q Now that finishes all the charts?

A Yes.

Q Well now Mr. McGrath, will you tell us something about the Cutbank prices, we will take Exhibit "145" which you filed this morning?

A Yes.

Q At page 42 shows the crude oil markets?

A Yes.

Q Pages 42 and 43?

A Yes.

Q What are the posted, is there asposted field price there for Cutbank crude?

A No, I do not see it shown here, Mr. Frawley.

Q No, I think we looked at it before, there is no posted field price, there is not any posted field price in this National Petroleum News of the 25th of January, 1939 for Cutbank crude?

A Not that I can see.

Q Do you know if the postings for Cutbank crude were withdrawn, and if so when?

A Well formerly, I do not remember the date, but some time ago they were reported in that magazine, the ~~National Petro~~leum news.

Q Mr. Huff suggests they were withdrawn on the 16th of November, 1937?

A Yes.

Q That was about the time that your company began to abandon its importations of Cutbank crude.into Alberta?

A Yes.

Q Well then what is the situation then so far as this

Commission is concerned, Mr. McGrath, about the Cutbank price, the available quantities and the price at which they can be obtained, your company's requirements rather can be obtained?

A Well as I mentioned before crude oil is being sold I believe, we know, at 75 cents per barrel, as low as 75 cents per barrel. Now as I understand it, Cutbank crude is prorated to about 25% and it is evidently, there would be plenty of crude available if we wish to buy it.

Q When you say prorated so there may be no misunderstanding, you mean prorated to the market?

A Yes.

Q Purely on account of market requirements?

A I do not know that, I only know it is prorated to 25%.

Q As the chairman indicated this morning, Mr. McGrath, it is important to know what the fact is about this Cutbank crude?

A Well the fact to be determined by, when you purchase Cutbank crude, Mr. Frawley, all we can take at the present time are indications. Now there is something which has happened in the last few months with respect to the crude oil price throughout the States, they have been reduced, so consequently Montana is going to feel the effect of it, it is likely going back into the Montana area and further pushing the crude back.

Q The Montana price of crude is affected by the price in Wyoming?

A I presume so.

[illegible] is concerned, [illegible], about the rubber prices, the available quantities and the prices at which they can be obtained, your company's requirements [illegible] obtained?

Well, as I mentioned before [illegible] I [illegible] believe, [illegible] know, [illegible] per barrel, as low as [illegible]. Now as I understand [illegible] Outbreak [illegible] is [illegible] to about 20; and it is [illegible] there [illegible] available [illegible] to buy it.

[illegible] there may be no misunderstanding, [illegible] the market?

Yes.

Purely on account [illegible] requirements:

I do not know [illegible], I only [illegible] to [illegible].

[illegible] this [illegible], it is [illegible] that [illegible] from [illegible] company.

Well, [illegible] Mr. Brawley, [illegible] the [illegible] indications. [illegible] which [illegible] in the [illegible] they [illegible] of it, [illegible] and [illegible]. The [illegible]

[illegible]?

I [illegible].

Q And the Wyoming in turn is affected by the price of Mid-Continent and probably this Illinois crude, in other words you say each crude field is dependent upon the other in the matter of price?

A They are competitive, that is my observation of them.

Q Well can you tell us, what we want to know is, you require 6132 barrels daily for the Regina territory, now then, that is a little confusing, Mr. McGrath, there is nothing constant about these requirements?

A No, because the territory changes.

Q Let us take it to the existing thing, that will be Chart No. 1 is it not?

A All right.

Q Would it not be?

A Chart No. 1.

Q I mean have you a map showing the present Turner Valley, the present situation with respect to the movement of Turner Valley crude?

A No, I have not.

Q You have not got that?

A No.

Q As of the 1st of January, 1939?

A No.

Q Or during the year 1938?

A No, I have not got that.

Q If we had that I could ask you some questions with respect to, well let us take what we have, Chart No. 1, Exhibit "140", you require 6875 barrels daily for your Regina territory?

A That is so.

Q Under Chart No. 1?

A Yes.

Q Now if your company decided to supply that refinery at Regina from the Cutbank field, they would have to go down into Cutbank and make a contract for the supplying of 6875 barrels daily?

A That is right.

Q Now are you able to say, have you got, are you sufficiently informed about it, to know what price they would have to pay for it if they actually went down and made, arrived at a policy and went down to buy the crude?

A In the best judgment of our officials, it is that it can be bought for something lower than 95 cents. Now that is through experience and dealing in the crude oil market and knowing the factors that affect those markets.

Q Don't you think that there is a likelihood that if the Imperial Oil should change its policy and began to supply its Regina refinery from Cutbank, reverse its whole policy?

A Yes.

Q And went down there and bought these large quantities of crude, that that would stiffen the market?

A Not when there is an abundance supply, Mr. Frawley.

Q Now that assumes an abundance of supply?

A Yes.

Q Your information, and to be frank with me, it is information which has been given to you by other people?

A Yes.

Q Is that there is an abundance of supply?

A Yes.

Q There is loose crude that anybody can go in and buy, there is loose crude that anybody can go in and buy?

A Whether it is loose crude or whether it is a matter of opening up wells, I do not know.

Q You do not know whether it is now being produced and stored?

A No I do not know..

Q You do not know what the storage situation is there, in respect of the Cutbank fields today?

A No.

Q I suppose the way to find that out would be to get some State officials and get the figures from them?

A I imagine so.

Q Bring them up here?

A I imagine so or send someone appointed by the Commission down to investigate what the situation is but the proof of the thing is when you buy the crude, that is the only time you can definitely determine what it is costing you.

Q But you said a moment ago, you did not dispute the suggestion if you went in there with a buying policy of that size, that it would tend to firm the market, would it not?

A Not when there is an abundance of supply, Mr. Frawley.

Q No, that is what you say, you say if there is an abundance of supply?

A Yes.

Q Then frankly you stop somewhere there, don't you, so far as your own knowledge is concerned?

A Yes, that is right.

Q I mean I do not want to push you too far because after all we want to just get what the facts are?

A Yes.

Q Well now then so much for that, it doesn't leave it very satisfactorily but we will have to see what we can do about that for the Commission. Now at the moment, today and tomorrow and every day, the Turner Valley crude is occupying these three areas pictured red, green and yellow?

A That is right.

Q And all that you have done for us today is to show us what the mathematics of the situation show, what the values become, taking, having in mind these posted prices, these posted well prices?

A Yes, and today's conditions.

Q You mean estimating your 1939 requirements?

A Yes, and today's conditions in the Illinois field and today's prices.

Q Well today's price?

A Yes.

Q That is what I said?

A Yes.

Q Based upon these various well prices, various posted prices or buying prices?

A Yes.

Q Buying prices?

A Yes.

Q In the Cutbank and Illinois fields?

A Yes.

Q Then your charts and your computations show what you

might call the "hard economics of the situation" demand?

A Yes.

Q And where the crude should move, having in mind these buying prices?

A Not exactly where the crude should move, Mr. Frawley, it is what we can afford to pay.

Q Yes, just that?

A Yes.

Q What you can afford to pay, what you can afford to pay, that is a good way of putting it. Now today the crude is moving, it is moving to these, to the whole of the Western Canadian market?

A Yes.

Q Turner Valley crude now controls and commands the whole Western Canadian market to a point about Kenora, Ontario?

A Yes.

Q And we are concerned here as you know, just one phase of our inquiry, namely the probability of a continued throughput through the Royalite Oil,Company's pipeline comparable to the 1938 throughput of some 5½ million barrels, I keep forgetting those figures all the time.

MR. NOLAN: 6 million barrels.

Q MR. FRAWLEY: Some 6 million barrels that the Royalite enjoyed last year as the throughput?

A Yes.

Q And that is the problem we are endeavouring to solve at the moment?

A Yes.

Q Whether or not there is good evidence upon it, to come to

a conclusion that there will be a diminution of that throughput in 1939?

A Yes.

Q That is our problem?

A Yes.

Q Your charts would indicate that if all other considerations were put aside and as I said this morning if full effect were given to the factors indicated by your evidence, then a certain amount of Turner Valley crude will be backed up?

A That depends upon the producers, Mr. Frawley.

Q No, let us take it one at a time, all other considerations set aside?

A Yes.

Q If full play was given to the factors which you have taken into consideration and which you have discussed?

A Yes.

Q Then the crude would be backed up, would it not, I presume?

A Well it depends where the producers wish their crude to go.

Q That is the next thing?

A Yes.

Q That was the very next thing in my mind, the producers could say "we will take right down to a cent a barrel" and if they said that then the crude could continue to flow just as it is, couldn't it?

A Yes.

Q Because you have given a figure of 13 cents or 14 cents?

A Yes.

Q The producer in Turner Valley would have to take 14 cents for that last part of the crude, 13.92 cents?

A Yes.

Q And if the producers in Turner Valley were willing to take 14 cents for these 513 barrels which went to the extreme eastern end of our present market then the situation would stay just as it is?

A That is right.

Q Right now they are taking---

A Well I will qualify that, that is providing Illinois crude remains at $1.15 a barrel.

Q Yes.

A If there is a reduction in price there then it will change the picture.

Q And the other Cutbank prices too?

A Yes.

Q But sticking to your evidence, entirely sticking to what you say here, and taking the figures from your Chart No. 3, if the Turner Valley producers were willing to take about 14 cents per barrel for these last 513 barrels that move to the far end of that present market, then the situation would remain just as it is?

A That is right.

Q And there would be no change in the market structure and the throughput, at least so far as the Illinois crude threat was concerned, it would be removed insofar as any loss to the throughput of the Royalite Oil Company was concerned?

A That is based on $1.15 per barrel.

Q Yes, yes, always?

A Yes.

Q Always based on what you say, the minute it goes below that it changes, if the Illinois price goes to $1.00, you would have to go back to Toronto and make out a whole lot more?

A That is it.

Q So that is one factor, now---

Q THE CHAIRMAN: Before you go to another phase of this, we ight give the witness a rest.

(A FIVE MINUTE ADJOURNMENT WAS HERE TAKEN)

Q MR. FRAWLEY: Now before I leave the Illinois crude, you say this is based, all your calculations are based upon buying this quantity of crude in Illinois at $1.15?

A That is right.

Q Now, Mr. McGrath, I do not suppose that you know, perhaps, a great deal about the Illinois field, certainly from the engineering or geological end of it?

A No.

Q I want to call your attention to two statements in the Oil and Gas Journal---

THE CHAIRMAN: Mr. Frawley, before you go to that I wonder if I may, I presume it will be established that you can buy Illinois crude at $1.15?

A We are buying Illinois crude at $1.15.

Q You are buying at $1.15?

A Yes.

Q And you have been able to do that for how long?

A I don't remember when it started but it was some time towards the end of last year.

Q Towards the end of?

A 1938.

Q And that has permitted of you economically taking that crude a certain distance West to encroach upon the Turner Valley products, is that right?

A Well to meet that.

Q Yes, it permitted of you using, putting your refined products into Manitoba where you originally would put the refined products from the Turner Valley crude?

A That is right.

Q MR. FRAWLEY: Let us understand that, there has been no physical change?

A No.

Q This is all figured on paper at the moment?

A But we are buying Illinois---

THE CHAIRMAN: I am trying to get it away from paper now.

MR. FRAWLEY: All right then.

Q THE CHAIRMAN: I take it all this evidence points to this, that because oil which comes from the Illinois Oil Field?

A Yes.

Q Goes further West and so replaces a certain amount of Turner Valley products?

A That is right.

Q Which would have been refined in Calgary or Regina as the case may be?

A That is right.

Q Is that right?

A Yes.

Q All right, do any of these figures show or are you able to show to what extent this has been accomplished, to what extent there has been a reduction in the barrelage from Turner Valley, that you will require?

MR. FRAWLEY: I think I can clear that up.

Q MR. FRAWLEY: Mr. McGrath, there has not been a single barrel of Turner Valley crude taken away from any part of our Manitoba market today?

A No.

Q When I say crude I mean in the form of refined products?

A No.

Q There has not been a single barrel of crude translated into refined products at Sarnia enter the Manitoba market, in fact?

THE CHAIRMAN: That is what I wanted to know.

A During this year, during the crop period we did have to move some into Manitoba.

Q You mean last year?

A Last year, yes.

Q Last year?

A At the present time we are going into that area.

Q At the present time you are what?

A We are going into that area.

Q At the present time there is some crude, some gasoline, some refined products physically, actually moving into the Manitoba markets?

A Yes.

Q How does it get there?

A From Regina.

Q From Regina?

A From the Regina Refinery, this is Turner Valley we are speaking of now.

Q No, Illinois crude.

A Illinois crude?

Q Yes, Illinois crude from Sarnia.

A I am not certain right at the present time, Mr. Frawley. I believe it is all Turner Valley in that area now and it is a question of whether the price will be reduced, the Turner Valley price will be reduced to take in that area or whether we will have to put Illinois crude in.

Q I am following up the Chairman's question, let us get to the actual facts today, as of the 7th day of February, 1939?

A Yes.

Q The people of Manitoba are using some Imperial products?

A Yes.

Q All right. Now where is that gasoline coming from that the people in Winnipeg today are putting into their cars, the Imperial stuff?

A From Regina.

Q From Regina?

A Yes.

Q That is what we have all understood?

A Yes.

Q None of it from Sarnia?

A No.

Q There has not been a drop of Sarnia refined products entered the Winnipeg market for a good many months?

A Well as I said during the crop period we ran short of gasoline and we had to move, we had to get it in quickly.

Q And what did you do?

A We moved gasoline from Fort William into the Manitoba market.

Q You moved some Sarnia gasoline from your Fort William storage into Manitoba?

A Yes.

Q During the crop season?

A Yes.

Q But that is of no value to this Commission?

A No.

Q In ascertaining what the facts are?

A No.

Q So outside of that emergency movement last fall, it has been a good many months since any Sarnia gasoline went into any part of the yellow area on your map?

A To the best of my knowledge, yes.

Q You are in the manufacturing department?

A Yes.

Q But if the marketing people were here, we can pretty well take it forgranted that the physical fact is that the Manitoba market is now being served by Turmer Valley crude?

A That is right.

Q So that at the moment the Illinois crude has not been translated into the actual, into an actuality, so far as Western Canada is concerned?

A No, we are awaiting developments.

Q You are awaiting developments?

A Yes.

Q And as you said a moment ago, this is only your figure as to what, shall I say again, what the mathematics of the situation would seem to require?

A That is right.

Q One of the things which I have touched on and passed was the point of view of the Turner Valley producers, if he chooses to take as little as 14 cents a barrel for a very small, an almost infinitesimal portion of his crude, he could still, notwithstanding the threat of the Illinois crude at $1.15, he could still hold all of the Manitoba market?

A That is right.

Q Now then the other thing is assuming that the Turner Valley producer does not want to touch it at all, that he wants to hold what he has, your company still as a matter of policy, has to decide that it is going to bring American crude into Western Canada, doesn't it?

A I didn't just understand your question.

Q I say that the crude has not moved in yet?

A No.

Q It has moved into your Sarnia refinery?

A That is right.

Q And it is going out into the Ontario market?

A That is right.

Q In a small part?

A Yes.

Q The Ontario market is still being served in large parts with Mid-Continent crude?

A Yes.

Q And it still remains for your company to decide, your Board of Directors to decide---
THE CHAIRMAN: . We have heard a great deal about "Mid-Continent", what do you mean when you speak of that?
A Oklahoma, Kansas, down there.
Q MR. FRAWLEY: Louisiana?
A I do not know about Louisiana.
Q Parts of Texas?
A Yes.
Q And I say that your company has still to decide, as a matter of policy, that it will in fact, as distinguished from what your figures show on paper, that it will in fact displace the gasoline refined in Regina and now serving the Winnipeg market, that gasoline made in Sarnia refined from Illinois crude---
A They have to decide that.
Q Yes, yes, that is a fact. They have to decide it?
A Yes.
Q After all the third assistant marketing manager is not going to send Sarnia gasoline into Winnipeg?
A No.
Q Mr. Halverson, Mr. LeSueur and Mr. Smith have to decide as a matter of policy that the Turner Valley made gasoline is going to be displaced in Winnipeg?
A Yes.
Q And until that important, I would call it an important decision is made the situation will remain as it is?
A It is the policy right now, Mr. Frawley, because Illinois crude is moving into Sarnia at those prices.

Q At Sarnia it is moving in?

A Yes.

Q It is moving into Sarnia but the American crude at the moment is not in Western Canada except what the Texas Company brings in?

A That is right.

Q And the small bit that I think the North Star brings in in Winnipeg, no, I do not think even the North Star, that is Turner Valley crude too, is it not?

A I do not know but this is the point, this Illinois situation is before us at the present time.

Q It is before you, you say it is on you now?

A Yes, it is right on us now.

Q But you actually have displaced, Mid-Continent crude has been displaced at Sarnia now?

A That is right.

Q But the people of Ontario have been burning American crude for years?

A That is right.

Q But up here we are not, the people of Western Canada are burning Turner Valley crude?

A Yes.

Q So I put it to you that there is a question of policy involved?

A That is right.

Q A serious policy, now you know what your company did when Turner Valley crude came in, they left the Montana crude in the crude oil field, didn't they?

A That is right.

Q And to their credit they used Turner Valley crude exclusively and they are now using Turner Valley crude

exclusively right through to about Kenora, Ontario?

A That is right.

(Go to Number 3869)

Q I suggest to you that it requires a considerable change of policy on the part of your Company to displace the Alberta crude with American crude in Western Canada? You would agree with me wouldn't you?

A I do not just.....

Q You said in your position you figured out these things and the mathematics of them as you say, and it would indicate that Turner Valley crude would be displaced in Winnipeg and that Illinois crude should be going in there?

A Unless the Turner Valley crude will meet the Illinois price.

Q That is right. But if it does not it has got to be backed up. That is true you say?

A That is true.

Q Illinois crude should, as soon as the boats start moving - nothing can be done till the break-up of Lake Superior anyway I suppose?

A No.

Q Whenever the boats start moving again......

A That is not a fact. You have to start providing stock now in the Refinery. You have to build up your stock whether it moves or not.

Q All right, take it as of now. What I am trying to draw the distinction between the conclusion you come to in your position on these various turns, based on these various posted prices - the distinction between that situation and the situation which faces the directors of the Imperial Oil Limited in displacing the Alberta crude in Western Canada. Is there a distinction or are the two things equal? Is there a distinction or does it not really follow because you found it out

particularly that Turner Valley crude should be displaced in Winnipeg that it thereupon will in the final effect be displaced?

A You cannot say it will be displaced. You cannot say it will be displaced.

Q Because the Imperial Oil may say we are not going to displace it until the bank account begins hollering much more than it is at the moment?

A Oh no.

Q Explain it then?

A It has to be displaced unless Turner Valley crude meets that competition.

Q You say it has to. That is to say there is no "if" at all?

A Yes.

Q You say it has to be?

A Yes.

Q You say that the dollars and cents won't permit anything else?

A That is right.

Q But that it should be displaced?

A Yes.

Q Assuming the Turner Valley producers are not willing to run it down to 14 cents a barrel?

A Yes.

Q Then there is no distinction. It is not a matter of the serious policy chosen by your Company that this crude should be displaced?

A No, it is based on fact Mr. Frawley.

Q I know it is based on fact. That is what I was trying to convey. Then it does not need to be brought before

the Board of Directors of your Company at all?

A I do not know of any major change that is not brought before the Board of Directors, Mr.Frawley.

Q But when it is brought before the Board of Directors then it is just an automatic decision? Your figures are submitted and it is what the cold economics show must happen and then a decision is made to push back the Turner Valley crude and let the Sarnia crude come into Winnipeg. Is that what happens?

A I am not a director. I have not sat in at a directors' meeting and I cannot tell you.

Q You say there is no distinction. You say the facts demand that? Will that happen? Must this Commission assume that is going to happen more or less automatically?

A Well I answered your question, Mr. Frawley this way, unless Turner Valley meets that price we have no alternative but to put Illinois crude in there.

Q I am taking something like public opinion and those kind of things?

A I do not know about public opinion.

Q I take it from you that is of no particular importance? That is, what you describe as the facts demand it, that is what is going to happen is that right?

A Well I think I have answered your question the best way I know how. If the Turner Valley producers do not wish to take a price that low for their crude oil, then we have no alternatife than to put the Illinois crude in. I do not think we have any alternative. It is straight business.

Q It is a straight business proposition?

A Yes.

the Board of Directors of your [illegible]

A I do not [illegible] of any major change [illegible] [illegible] before the Board of Directors, [illegible] [illegible]

Q But what [illegible] the Board of Directors then it is just an automatic decision. Your figures are calculated and it is what [illegible] most [illegible] than decision made to [illegible] the Turner Valley crude and let the Sarnia crude go into [illegible]. Is that what happens?

A I am not a director. I have not sat in at a directors' meeting and I can [illegible]

Q You say there is no [illegible]. You say the facts demand that? [illegible] that happen? [illegible] this Committee assume that is going to happen more or less automatically?

A Well I answered your question, Mr. [illegible], this way, unless Turner Valley means that price we have no alternative but to put Illinois crude in there.

Q I am taking something like public opinion and those kind of things?

A I do not know about public [illegible]

Q I take it from you that is of no particular importance? That is, [illegible] as the State [illegible] that is [illegible] in that respect?

A Well [illegible] have answered your question [illegible] I can [illegible] [illegible] take a [illegible] for [illegible] [illegible] [illegible] I do not [illegible] [illegible] [illegible]

[illegible]

[illegible]

Q It will happen just as sure as tomorrow is Wednesday, if these Turner Valley producers do not come down in their price of crude as shown by your chart, the Sarnia crude, will in fact, in about the month of April or May, be making its appearance in the Winnipeg market and be sold to the consumers in Manitoba?

A Yes, I would say that is a fact, from my knowledge of the business, that is a fact.

Q THE CHAIRMAN: All right, we will assume that with you. How far can you economically bring up the Illinois product West, to compete with Turner Valley at its present prices? I daresay you could not come into Calgary?

A No sir.

Q How far could you come?

A I do not know, Mr. Chairman, it will be somewhere West of the present line between Manitoba and Regina.

Q MR. FRAWLEY: Haven't you got that figured out in one of these charts?

A No, I have not.

THE CHAIRMAN: That surely is the purpose in doing some figuring, to find out how far West you can come and how many barrels that means.

MR. NOLAN: You have to take the Montana situation into account. You cannot just say there are two oil fields, Turner Valley and Illinois, because there is a third.

THE CHAIRMAN: Yes. Now the third is not new as I understand it. The third has been here all the time?

MR. NOLAN: It was in and was kicked out.

THE CHAIRMAN: Yes.

MR. NOLAN: It is out now.

THE CHAIRMAN: Yes.

Q MR. FRAWLEY: Why are you bringing it back in? That is a little disturbing to me. Why are you bringing the Cutbank field back in?

Q THE CHAIRMAN: Perhaps we might find out first of all why it was kicked out. Was it sentiment on your part or were you still standing on this business policy of buying in the cheapest market, that you have been mentioning to Mr. Frawley. Cutbank went out. Why?

A Because Turner Valley came in.

Q Yes, why? Because you bought at a better price?

A We bought at a price.....

Q That permitted of you throwing out the Cutbank?

A Equivalent to the Cutbank.

Q Economically sound to do it?

A Yes.

Q No sentiment about that?

A Yes.

Q Just as there will be no sentiment about bringing Illinois West as far as you can?

A No.

Q As far as it is economically sound to do it?

A Yes.

Q And quite right. But I am asking you how far West can you bring it? Suppose you want to bring it all you can. What does it mean in barrels, because we are interested in barrels now, going through a pipe line?

A Well, the present price of $1.30 a barrel for 48 gravity will not reach Regina in competition with Cutbank crude.

Q This is Cutbank again.

MR. FRAWLEY: You say the present price....

THE CHAIRMAN: You say, as I understand you, Mr. McGrath, if I may interject Mr. Frawley while it is present in my mind, as I understand you you found it economically sound to take Turner Valley crude instead of Cutbank?

A Yes.

Q Because you got a better price. So Cutbank was closed out, and they have a great surplus of product and you are speaking of the price they will sell it for today?

A Yes.

Q Because they have that surplus.

A Yes.

Q Well, if you reverse the position, how long will they have a surplus and how long will they sacrifice?

MR. FRAWLEY: You do not know about that?

THE CHAIRMAN: It is all well to say to compare the Cutbank field. I want it clear. It may be quite sound, and if so I want to understand it. You speak of the Cutbank field which was replaced because it was economically sound to replace it. It seems to me - and you can correct me if the impression is a wrong one, you cannot fix a price on a field that has been thrown out and because of no market they have a surplus that they will throw away if necessary.

MR. FRAWLEY: That is the point we arrived at this morning. You do not know about that Montana market?

A No, just from the indications we have, and that is the purpose of submitting these charts is to show the Commission our position if crude could be bought at .80 cents, .90 cents of $1.00 a barrel.

Q Forgetting about Illinois crude altogether - and these maps altogether - should Turner Valley be going to Regina today?

A At .80 a barrel no; .90 cents a barrel, no, at $1.00 a barrel, no.

Q On $1.00 a barrel no?

A No.

Q Under all the charts you have submitted this morning the Turner Valley crude should not be going to Regina?

A That is right.

Q Why is it going?

A Well the situation has changed within this last few months. There has been a great deal of change. The Illinois, no doubt, has affected the Cutbank. But things have remained until we make this submission to the Commission. We have not made any changes.

Q As I understand it, you say the Illinois may react on Montana?

A Yes.

Q But leaving out Illinois for the moment. You say there is a situation in Montana which results in the statement by you now that Turner Valley crude should not be going to Regina?

A I said if....

Q Yes, I know?

A If crude can be bought at .80, .90 or $1.00.

Q Never mind about the .80 or the .90. Even paying $1.00 per barrel for crude at the well in Cutbank, Turner Valley crude at its present prices should not be going to Regina?

A It is only valued at $1.20 at the well for Regina, and the posted price is $1.30.

Q You are paying 10 cents more. So that by 10 cents the Turner Valley crude should not have even the Regina market?

A You have to go back to - using this price of $1.30 - it is averaged from the $1.30. That is a fact.

Q That is a fact?

A That is a fact.

Q This $1.30 is the existing price?

A Yes.

Q That is not a calculation, it is the price?

A Yes.

Q As far as I am concerned I want to know all the terrible truth. You say under present conditions in Montana - leaving Illinois out of it for the moment - our crude in Turner Valley should not be going out of the Province of Alnerta?

A I did not say that, Mr.Frawley.

Q It should not reach as far as Regina?

A No. That depends on whether the producer wants to take this price or not.

Q At the present prices - we have not gone into whether or not if that producer had the opportunity at all - they are taking what they are getting, the Imperial

posted price?

A Yes.

Q They have not been approached to take anything less. We take the situation as we find it, and the fact is on the present posted prices in Turner Valley, Turner Valley crude does not economically go as far as your Company is concerned, as far as the Regina Refinery?

A That is right.

Q Your Company has no refinery between Regina and Calgary?

A No.

Q And as far as your company is concerned Turner Valley should not go a foot more than the Calgary Refinery?

A Unless they meet the prices.

Q That is at the present situation?

A That is right.

Q And then leaving aside the Illinois crude again. Will your Company - does it follow as night the day that your Company will correct that situation and will they continue to bring Turner Valley crude to Calgary, if the present prices, the crude price structure remains the same?

A I cannot answer that, Mr.Frawley, I cannot. You cannot expect me to answer that.

Q I thought you would make the same answer as far as your Illinois crude was concerned, that the dollars and cents point of view says to your Company that Turner Valley crude has to be displaced from the Manitoba market?

A Yes. It does not have to. It does not have to be if the producer meets the prices.

Q But if the producers do not that is always a variable?

A   Yes.

Q   As the Chairman said a moment ago, we could send it to the Atlantic Ocean if they wanted to take 1/10 of a cent a barrel. But leaving the producers as they are. The Imperial Oil has a posted price, and they are paying them the posted price?

A   Yes.

Q   We will leave them out of it for the moment. The producer continues to accept the Imperial Oil price. You say it follows very definitely that Turner Valley crude must be displaced out of Manitoba market?

A   That is right.

Q   You say that and you say there is no alternative?

A   That is my opinion of it, yes.

Q   That is why I asked you if there was a difference between your opinion as Chief Accountant and Statistician to the Company, working out these calculations, was there any difference between your opinion and your judgment and the judgment of the Company as a company, taking into account all other factors which may exist. Is there any difference?

A   If there was not any difference of opinion I would probably be an officer of the Company.

Q   I do not follow you there?

A   There is bound to be differences of opinion. My opinion does not decide the changes that the Company make.

Q   Perhaps the Chairman put it well a moment ago. As far as you are concerned you are eliminating sentiment altogether. There is no sentiment in your calculations?

A   No.

James McGrath.

Q And you say the calculations show to you that the Illinois crude has to displace the Turner Valley crude in the present Manitoba market?

A Yes, if.

Q Always that same "if". And with the same "if" your calculations tell you that Turner Valley crude should not go to Regina and that the Cutbank crude should be going into Regina?

A "If" again.

Q Yes, I put it at the beginning this time?

A Yes.

Q You do not want to say whether your Company will follow what you say is the cold logic of the matter and push Turner Valley crude back into Calgary?

A I cannot speak for the officers of the Company.

Q Then can you say the same thing about the Manitoba situation? There is no difference.

A I gave you my opinion.

Q Yes?

A You asked me about the officers of the Company and I cannot answer for the officers of the Company.

Q You would not want to commit them and say what their policy would be any more for Manitoba than for Regina?

A Well no, I cannot.

Q I understand. So it is a far worse situation than I was led to believe. It is not a matter of the Illinois crude throughout. It is far nearer to home. You say the Montana situation is getting into such a state that that crude should be going into Regina and not Turner Valley crude?

A If it can be bought at .80 cents or .90 or $1.00

per barrel.

Q You have put those figures down?

A That is right.

Q Because your best judgment told you this, and your information told you this?

A Yes.

Q You have reason to believe it can be obtained in that range?

A It has been bought at .75 a barrel.

Q And you feel you have been fair in assuming .80, .90 and $1.00?

A That is right.

Q Accepting your information for the moment to be sound, then Turner Valley crude should not be going into Regina?

A Unless the price is met.

Q THE CHAIRMAN: Having regard to all these assumptions which you make, what price could you pay for Turner Valley crude and have it occupy the market it does now? Assuming the worst?

A On Chart 1 we could afford to pay for the same market $1.07 per barrel at the well.

Q Yes, $1.07 at the well on Chart 1. What does that mean, Chart 1?

A The value of 48 gravity in competition with Cutbank crude at Calgary, $1.00 a barrel, and Cutbank crude at Regina .80 a barrel and Illinois crude at Sarnia $1.15 a barrel.

Q MR. FRAWLEY: Assuming these three posted prices in the foreign field, they could only afford to pay $1.07 for Turner Valley crude at the well?

THE CHAIRMAN: What are they paying for that oil at the well today?

A For that gravity $1.30 a barrel.

Q MR. FRAWLEY: Assuming $1.15 for Illinois and what for Cutbank?

A .80.

Q 80 cents if it goes to Regina and $1.00 for what would come to Calgary - $1.07 they could pay for Turner Valley crude? That is the basis. That is getting into Charts 4, 5, and 6 is a little more confusing is it not?

A Yes.

MR.NOLAN: There are two other prices the Chairman has in his mind. That is on the 80 cent basis that figure of $1.07. On the 90 cent basis it is $1.13.

MR. FRAWLEY: At 80 cents, we have just given the Chairman, the Company could pay $1.07 for Turner Valley crude. $1.07 could be its posted price in Turner Valley, and to keep all of its present market upon the assumption that they could buy Cutbank crude for $1.00 for their Calgary requirements, and Cutbank crude at 80 cent for their Regina requirements. Now on the assumption that they have to pay $1.00 for Cutbank crude for their Calgary requirements and 90 cents for their Cutbank crude for their Regina requirements and $1.15 for their Illinois crude for their Manitoba requirements, they could afford to post a price of $1.13 for Turner Valley crude and keep all of that market. Lastly if they had to pay $1.00 or they could get for $1.00 their Cutbank crude for Calgary requirements, and had to pay the same price

of $1.00 for their requirements at Regina for Cutbank crude, and $1.15 for Illinois crude for the Manitoba requirements, they could then post a price of $1.20 for Turner Valley crude and keep all their markets. All these prices are against the existing price of $1.30 that they are now paying.

Q THE CHAIRMAN: Yes. Now if Turner Valley was able to eliminate Montana before, what reason can there be for it getting back into the market? Its extremities; its financial bankruptcy or what?

A Well I cannot answer that, Mr. Chairman.

Q What change is there in the position?

A Well I believe that due to the Illinois field and general reduction in crude prices in the Unites States, it has forced the Montana crude back into Montana. Forced it back.

Q Forced the Montana crude back?

A Yes, because Montana competes with Wyoming crudes now. Wyoming crudes have been reduced in price. That means that Wyoming crudes will move against the Montana crudes, unless the Montana producers meet it.

MR. NOLAN: I do not think he put that very happily to the Chairman. What you are saying in effect is that Montana, under the old American crude prices enjoyed a certain market?

A Yes.

Q Outside of Montana?

A No, not outside Montana, in Montana.

Q That market has been curtailed to it by reason of the reduction in crude prices in the United States?

A It will be. Yes, that will be the effect of it.

Q But it was curtailed by reason of the prior reduction of crude prices in the States. When crude went down in the States was not the Montana market limited?

A Oh yes, that is right.

Q And that is what you mean when you say to the Chairman that Montana was forced back? That is the expression you used?

A Yes, unless they meet that competitive situation it is forced back.

Q You mean the market for Montana crude was curtailed in Montana?

A Unless it would meet the competitive prices.

Q But it was curtailed?

A Well I cannot say that, Mr. Nolan.

Q You know it was curtailed as far as this country was concerned?

A Yes, it was.

Q MR. FRAWLEY: The Chairman asked you something a moment ago about the fact that in the late part of 1937 the Montana crude was in fact pushed out of Alberta, pushed back into the field in Montana?

A Yes.

Q That was done by the simple process of your Company putting down the price in two big drops. It was $1.79 and they put it to $1.52 and then to $1.30?

A That is right.

Q And those big drops in the price is what put the Montana crude back?

A Yes.

Q Into the field?

A Yes,

Q In other words the Turner Valley producer had to accept within a matter of a few months a cut in price per barrel of about 50 cents?

A Now.....

Q That is so? So the Chairman will understand you, that was why the Montana crude was pushed back into Montana out of Alberta?

A Because Turner Valley was placed on an equivalent value with Cu bank crude, and it replaced it.

Q That is all it was. You people were paying a certain price for Turner Valley crude?

A That is right.

Q And you were using a great deal of Montana crude?

A That is right.

Q And you said to the producers "If you want us to take all our requirements out of Turner Valley you have got to suffer a reduction in price?"

A Meet the competitive price.

Q You have to meet that competitive price?

A Yes.

Q And we will do that by lowering the price of Turner Valley crude and lower it again until we get it down to where it backs up the Montana crude, and in that simple fashion the Montana crude was backed up?

A Yes.

Q THE CHAIRMAN: You say the only effect Illinois crude has one way or another is it may effect a general reduction in the price of crude through the

United States.

A There was a general reduction sir.

Q MR. FRAWLEY: It might be that or it will put down the price of crude in Turner Valley I presume. Anything may have done it?

A Yes. This shows that.

Q You say this shows, you mean this 80 cents, 90 cents and $1.00?

A My statement shows it.

Q THE CHAIRMAN: If crude everywhere will go down relatively?

MR. FRAWLEY: Yes.

Q THE CHAIRMAN: If crude everywhere will go down relatively we are not concerned with Sarnia and with Illinois at all in this country are we, but rather with the reduction that will be effected for whatever reason in the competitor close at hand, namely the Cutbank field.

Q MR. FRAWLEY: That is right is it not?

A That is right.

Q THE CHAIRMAN: So that Illinois is just one of the factors that may lead to a reduction in the price of crude throughout America?

A That is right.

Q Northern America at least?

A Yes.

Q And that is all it means in the last analysis?

A That is right.

Q MR. FRAWLEY: Take the situation of the British American. They are bringing in crude from East Texas by pipe line to Houston, and by boat up the

Atlantic Coast into Toronto?

A I do not know. I do not know what the British American do.

Q Assuming that is what they are doing, and not bringing in any Illinois crude at all. But that finding of the Illinois crude production may depress the price that the British American has to pay for their crude in East Texas.

A It is quite possible.

Q Because without.....

A Illinois will back up the Mid-Continent and the Mid-Continent will probably have an effect on the Texas crudes.

Q I do not know what they are going to say. They are coming in a day or so to say it. I did not understand they were using any Illinois crude in their Montreal or other refineries, but it becomes material to them because of the effect, the way one field reacts upon another as to the price, I suppose?

A Yes.

Q THE CHAIRMAN: There is a general lowering?

A Yes.

Q And if the Illinois field was large enough to supply the demand, the lowest price at which it would sell would be the price to which all other fields would have to come relatively?

A That is right, Sir.

Q MR. COMMISSIONER LIPSETT: Mr. McGrath, you put this reduction that will be necessary to meet the Illinois and Cutbank competition, you put that entirely, in your idea, on the producer of crude oil?

A That is the value at which we can pay for it at the well.

Q Would it not be equally feasible to say there must be some drastic reduction in the cost of your pipe line rate to enable this Turner Valley - in which you are so largely interested - to meet that competition ?

A Well.....

Q Supposing I put it to you this way, if the Turner Valley producer has to cut down his price to a point which allows him no profit, would not the owner of the pipe line to try and hold his business, be brought down to a position where it would have to carry oil without a profit?

A Well I cannot answer that.

Q Is not one entitled to make a sacrifice just as much as the other?

A Yes. But by referring to Charts 1, 2 and 3, if you took 1 and 2 - if you took the pipe line charges out entirely, you still could not pay $1.30 for the crude.

Q Well it is 15 cents a barrel?

A That will make No. 1 $1.22 and No. 2 $1.28, and No. 3 would be $1.35.

Q That is not just what I was putting to you. Supposing there was 20 cents to be made up, why put it all on the producer and none on the pipe line?

A I do not know anything about the pipe line, Sir, its rates. All I am using is the rate we pay the Royalite Company for their oil.

Q You are very definite that the Royalite Oil Company - which we know is controlled by the Imperial?

[illegible] in price to a [illegible]

[illegible] profit, [illegible]

[illegible] continues [illegible]

[illegible] it would leave the county [illegible]

[illegible] that.

[illegible] profits [illegible]

A Yes.

Q You are definite in your opinion that all the loss should be taken by the producer. But I am putting to you the other thing, is that fair?

A Well I do not know the pipe line situation and, therefore, I cannot answer that, Sir.

Q If we know there were very large profits made, don't you think they should contribute?

A That would be the Royalite Company's problem, Mr. Commissioner. I do not feel that I can answer that.

Q You have come to the very definite conclusion that the loss should all be taken by the producer.

MR.NOLAN: If I may interrupt. I have not said the producer should take any loss. We have said the price that we could afford to pay in order to compete is so much. Now the producer does not have to take any loss. He does not have to produce at all, unless he likes.

MR. FRAWLEY: That is taking a loss I would think. He either leaves his oil in the hole or takes a reduced price.

Q There is one thing I want to mention before we adjourn, Mr. McGrath. The people in Manitoba are paying - there is what we call a Manitoba price structure and a Saskatchewan price structure for refined products?

A I do not know anything about refined products. That is a marketing matter.

Q You do not know that the Manitoba price structure is based upon the Turner Valley crude prices that you pay?

A I do not know anything about the price structure. I

am just talking about the price of raw materials.

Q Because if you drop your price structure in Manitoba of your refined products, the price structure, that might ease the tension a little bit?

A No. Just what do you mean?

Q MR. NOLAN: He means to reduce the price of gasoline in the City of Winnipeg might meet the situation. That is what he means.

Q MR. FRAWLEY: If you are now charging a price for refined products in Manitoba, based upon prices you are paying in Turner Valley for crude, which I assume is a fact, because that is where the gasoline is going, - and you felt that the price was too high and that you should give them a price structure based upon the Sarnia gasoline, based upon gasoline made at Sarnia from Illinois crude?

A Yes.

Q Then the Imperial Oil Company would have to absorb the difference there. That is where that leads us to, I suppose?

A It has nothing to do with the price structure, Mr. Frawley. This is the cost of raw material.

Q THE CHAIRMAN: You know nothing about this field, this Illinois field? I mean who is developing it?

A No, I do not.

Q Who is in control of it?

A I do not know, Sir.

Q Who fixes the prices there?

A No.

Q Who has to determine whether it is wise to sell for $1.15

or anything like that, you do not know?

A No. We just take the posted price and that is what we pay for it.

Q You say "we", you are speaking of the Imperial?

A The Imperial Oil, yes sir. We buy the crude at $1.15 per barrel.

Q Do you know if the Standard Oil, is in control of the Illinois field?

A I do not know, sir. I do not imagine there is very much control when it is selling at all prices, when there is all kinds or prices for it. There does not seem to be much control.

Q I have no reason to suggest it, but I just wanted to know.

A Yes.

Q If any point is being made about the Illinois field we should know something about it. Well, we will rest for tonight.

(At this stage the Hearing was adjourned until 10.30 A.M., February 8th, 1939).

....
....

32

Tanner

[Th]e Province of Alberta

IN THE MATTER OF THE PUBLIC INQUIRIES ACT

—and—

IN THE MATTER OF a Commission, dated the 12th day of October, A.D. 1938, to inquire into matters connected with Petroleum and Petroleum Products

Commissioners:

The Honourable MR. JUSTICE McGILLIVRAY (*Chairman*)

—and—

L. R. LIPSETT, ESQ.

Session:

CALGARY, Alberta FEBRURRY 8th, 1939

VOLUME 32

INDEX

. . . .
. . . .

JAMES McGRATH, having been recalled, examined by Mr. Frawley said:

Q Mr. McGrath, there are some, there has been some letting up, has there not been, lately, in the production of the Illinois field. I read at page 212 of the Oil and Gas Journal for the 26th of January of this year, being a report on the Illinois and Kentucky fields, this statement:

"Illinois fields. Highlights of the week. Illinois made another production peak in the past week. The Max Pray test for production in the Devonian, Niagaran, in the Sandoval field in Marion County was showing sulphur water in the pay horizon."

That is not a very promising sign, is it?

A What about the Lowden field?

Q This is in the Sandoval field.

A Is that an old field or a new field?

Q I cannot say.

A I think you will find that magazine at the end of the year, there was 400 some odd wells being drilled in that field.

Q That is only part of the paragraph, I will read the rest of the paragraph, it is only short.

"Daily production of new pools, 132,460 barrels; old pools, 7,615 barrels, total 140,075 barrels. Completed oil wells 58; field operations, including locations rigs and wells drilling 484".

Now that is in the issue of the 26th of January and in the last one, which has just come to hand, the issue of

the 2nd of February, 1939, under the same item

"Illinois fields. Highlights of the week. Production of the basin fields fell off 7,225 barrels per day in the past week, compared with the previous seven days. Devonian lime failures scattered in Coles, Jefferson and Marion Counties are significant, following the recent flurry of interest in Devonian possibilities".

Now comes the thing I want to call to your attention,

"Daily production of new pools, 125,235 barrels; old pools, 9,287 barrels; total 134,522 barrels".

You will notice the daily production of the new pools 132,460, and in the report, the last report it is 125,235 barrels, there is a very serious falling off in the daily production of new wells there certainly.

A Yes, but with the drilling of 400 and some odd wells, Mr. Frawley, there is no question of the production not being increased.

Q In the old pools, that is a fact that the daily production of the pools has fallen off?

A Yes.

Q Old pools 9,287 barrels and the production from the old pools in the January 26th report was 7,615 barrels, that is it, totalling 134,522, the total you see is down from 140,075 barrels to 134,522 barrels.

A It doesn't say there the reason for it?

Q No.

A It may be this time of the year.

Q No, it certainly does not and that brings me to this

[illegible] 10, 1948, under the same item

[illegible] 1948. Highlights of the week.

[illegible] the Keith Field. Hill off

[illegible] in the past week, com-

pared [illegible] days. Develop-

[illegible], Jefferson

[illegible] Counties are significant, follow-

ing the recent flurry of interest in Devonian

possibilities".

Now comes the item I want to call to your attention,

"Daily production of new pools. [illegible] barrels;

[illegible] barrels; total 114,852 barrels."

You will notice the daily production of the new pools

[illegible], and in the report, the last report it is

[illegible] very serious falling off

in the daily production of new pools there certainly.

Yes, but [illegible] the drilling of 40 [illegible] some old wells,

[illegible] anyway, there [illegible] production

[illegible] processed.

[illegible], that is the fact that the daily pro-

[illegible]

statement, and I am being just as polite as I know how, you do not pretend to know anything about the Illinois field do you?

A Just what I have heard about it. I have never been there but I can say this, that an increase from 5000 or 7000 barrels a day to 130,000 barrels is quite a substantial increase in one field.

Q Oh yes, it is a flush production field now, is it not, that is still what they call a flush production, is it not?

A It is a field being developed but we do not know the extent of that field at all.

Q It may peter out?

A And it may double itself.

Q It may be an East Texas or it may not, it may peter out?

A Well you say it may peter out, I say it may increase its production.

Q You have to say both and I have to say both?

A No, I do not have to say both.

Q Is there any danger of this field petering out?

A I do not know and I cannot say there is if I do not know.

Q You are not much of a geologist if you will not go that far?

A I am not a geologist.

Q Turner Valley may peter out?

A Yes, if you live long enough it may peter out.

Q That will not be petering out because you are a young man yet. However let us pass on, how much are you bringing in from the Mid-Continent to your Sarnia refinery?

A Well we are bringing in a total of approximately 23,000 barrels of which 3 to 4 thousand is Illinois crude.

Q Yes, now what is the difference in the laid-down cost of the Illinois crude and the Mid-Continent crude at Sarnia?

A The Illinois crude is approximately 8 cents a barrel cheaper than the Mid-Continent.

Q You are laying down the Illinois crude at your refinery in Sarnia at 8 cents less?

A Yes.

Q 8 cents is a lot of money on a barrel of crude for an operation of your size?

A Yes, I would think so.

Q Why are you not bringing in more than that small amount of Illinois crude?

A Because as I say the change has to be made gradually. We have been running one crude for years and now we are changing over to Illinois crude. There is a possibility we may not be able to make all the products from Illinois crude that we are making from Mid-Continent and it means a gradual changing over but we expect to be running by the summer from 10 to 14 thousand barrels of Illinois crude.

Q Is it worth while suggesting to you that, you are buying your crude at the moment in the Mid-Continent field and it is coming from your, from affiliated companies, is it not?

A I do not know. I have never seen the invoices.

Q I understood from somebody that it was coming from either the Carter or the Humble Oil Company?

A I never have seen the invoices.

Q Is it fair to suggest it?

A You may suggest it.

Q Do you know even enough about it in a general way to say that that is probably the case?

A Well I cannot speak for accuracy unless I have seen the invoices.

Q No, of course as I say again it is too bad you have not this information. Perhaps you can get that?

A Yes I can get that.

Q Because there is a point I would like to follow up there, if you assume with me that your crude is coming from your affiliated companies in other words from subsidiaries of the Standard of New Jersey, operating, producing subsidiaries in the Mid-Continent field, if you assume that, you say you cannot assume it or otherwise, but if you assume that with me for the moment, it certainly is coming through a pipeline which is a subsidiary of the Standard of New Jersey, is it not?

A I cannot answer that. I do not know.

Q You do not know that either?

A No I do not.

Q If you make that assumption with me, is it not a possibility that the parent company may desire that you keep buying the crude from the Jersey producing subsidiaries in the Mid-Continent rather than to be buying it from third parties in the Illinois field?

A The Jersey Company does not dictate the Canadian policy. We buy our crude wherever we see fit.

Q That is an interesting statement, the Jersey Company does not dictate the policy of the Imperial Oil Limited?

[illegible] ... [illegible] ... I have seen [illegible]

[illegible] secrecy [illegible]

[illegible]

[illegible] had you have [illegible]

[illegible]

[illegible] ... [illegible] ... I [illegible]

[illegible] ... [illegible]

[illegible] ... [illegible]

[illegible] ... [illegible] Mo[illegible] ... [illegible], certainly, [illegible]

[illegible] ... [illegible]

you assume that, you may [illegible] cannot assume it [illegible]

else, and if you cannot [illegible] for the moment, [illegible]

[illegible] through [illegible] which [illegible]

[illegible]

[illegible]

[illegible]

[illegible] ... [illegible]

[illegible]

A No.

Q I see, what does it have to do---

THE CHAIRMAN: How does he know? How do you know?

A Well I know that our people arrange for the purchase of crude oil, sir.

Q You are not a director?

A I am not a director.

Q You have nothing to do with the framing of the policies?

A No I have not.

Q You do not know whether those who do frame the policies, from where they get their instructions?

A No, I am just speaking of what I know, that is all.

Q And about that subject you know nothing, is that not correct, about the policies of your company?

A Of the policies of our company, yes.

Q You know about their practices?

A Their practices.

Q You know nothing about how their policies are framed?

A No I do not.

Q MR. FRAWLEY: Mr. LeSueur spends a good deal of his time in New York, doesn't he, Mr. McGrath?

A I Presume he does.

Q And that is for the purpose of conferring with the officers and directors of the parent company?

A I do not know.

Q If it is oil business, if it is oil business that would not be an unreasonable assumption, would it, that when he goes to New York he confers with the officers and directors of the parent company. Anyway as I am putting it to you---

A Yes.

Q That the company, that the Jersey policy, assuming now that they have something to say about the Imperial policy in Canada, the Jersey policy may be to keep the Mid-Continent crude going to Sarnia through the pipeline, that may be a factor which might keep the Illinois crude in Illinois so far as the Imperial Oil is concerned?

A But the fact is we are buying Illinois.

Q You are buying now a very small proportion?

A Yes, and we are gradually changing over to use more of Illinois.

Q But that again is a policy, is it not?

Q THE CHAIRMAN: How much did you say you were buying now?

A 3 to 4 thousand barrels a day.

Q MR. FRAWLEY: Out of a total throughput of 23 or 24 thousand?

A Yes.

Q Where are you buying the crude in Illinois, who are the vendors of the Illinois crude that you are taking into your Sarnia refinery?

A I cannot say that. We buy through our agent, the Transit and Storage Company.

Q You could find that out for us during the day, couldn't you?

A Yes I could.

Q Give us some information about the last six months, about how long has that crude been coming in?

A It started the latter part of 1938.

Q Just a few months it has been coming in, so that you can cover the whole thing, if the Transit and Storage Company will advise you from whom they are buying in the Illinois field and which particular field it is coming from, which field is it, do you know, the Lowden field?

A So far as I know it is the Lowden field.

Q And find out what they are paying, so that we will have something to compare with the posted field price?

A Yes.

THE CHAIRMAN: Mr. Nolan, you are making a note of these things that are being asked for.

MR. NOLAN: Yes.

THE CHAIRMAN: There was something else a moment ago.

MR. FRAWLEY: Yes, the name of the vendor of the Mid-Continent crude during the last twelve months say and the name of the pipeline through which it comes and whether it is a Jersey subsidiary and also whether the vendors of the Mid-Continent crude are subsidiaries of the Jersey.

THE CHAIRMAN: You equally want to know the same as to the Illinois field.

MR. FRAWLEY: Yes, the names of those vendors and add to that whether these vendor companies in the Illinois field are associated in any way at all with the Jersey Company or the Imperial.

Q MR. FRAWLEY: Now, yes, and the Chairman asked you last evening, Mr. McGrath, something which is important for you to tell us, assuming that the producers will not meet the situation by reducing their

price and---

THE CHAIRMAN: The Turner Valley producers?

Q MR. FRAWLEY: The Turner Valley producers will not meet the situation by reducing their price to a point to enable them to keep the Manitoba market and secondly assuming that what you say, secondingly assuming that what is represented on your chart actually comes into effect, becomes a fact, can you tell us how many barrels of crude will be backed up on Turner Valley or were you able to get that?

A Just taking out the Manitoba market?

Q Yes, just the Manitoba market, we asked you that last night and as I recall Mr. Nolan---

THE CHAIRMAN: It may or may not take out the Manitoba market. May I make a suggestion to you, Mr. Frawley?

MR. FRAWLEY: Yes.

THE CHAIRMAN: Take the witness' own hope, not hope but thought, that by mid-summer they will be using up to 13 thousand barrels of Illinois.

MR. FRAWLEY: In Sarnia?

THE CHAIRMAN; In Sarnia. How much of that, that is his maximum to date, how much of that will go West and to what extent, how far West and to what extent it replaces in barrelage the oil which now comes from Turner Valley?

Q MR. FRAWLEY: Well now that is approaching it from the Sarnia end. The threat is contained of course in moving Sarnia gasoline made from Illinois crude into Manitoba?

A Yes.

Q Of course not moving certain gasoline made from Mid-Continent, that is taken care of for the moment?

A That is right.

Q But moving the cheaper crude, the gasoline made from the Illinois crude into the Manitoba market, how much would you have in mind would move in per day, in 1939?

A On Chart No. 1.

Q Yes.

A First of all let us put it this way, at the present time we receive from 3 to 4 thousand, by the summer of 1939 our gasoline will be produced from Illinois crude and we will receive from 10 to 14 thousand barrels.

Q When you say your gasoline?

A That will be our marginal crude.

Q You may be a little technical there, that is only half your throughput, what do you mean by that?

A It will gradually change until Mid-Continent is just used primarily for lubricating oils and the Illinois will then be the gasoline crude.

Q What percentage of your throughput is represented by, what percentage of your throughput is taken up in lubricating oils?

A Oh approximately 5 to 6 thousand barrels.

Q So you do not intend, at the best you do not intend to, you always intend to keep 5 to 6 thousand barrels of Mid-Continent coming in for lubrications?

A Unless we can make the products from Illinois crude, that is a matter of changing processes and research.

Q Yes, so that you will have, you are saying you will be making all of your white products from Illinois crude

by what month as you see it?

A Well sometime during this year, I do not know what month.

Q Well when the lakes open and it becomes necessary to replenish your storage at Fort William, is that when you expect to move the Sarnia gasoline made from Illinois crude into the Manitoba area?

A Yes, we will probably move gasoline if the producer is not willing---

Q Yes.

A In that event there will be 2233 barrels of crude.

Q There will be 2233 barrels of crude?

A Yes.

Q MR. NOLAN: It is all on Chart 1?

A It is all on Chart 1.

Q MR. FRAWLEY: Now the Chairman was coming at it from the Sarnia end; at the moment the Imperial Oil Company enjoys a market for so much white products in that Manitoba area?

A Yes.

Q And that is really what you started with?

A Yes.

Q You have that market?

A Yes.

Q You are presently filling it?

A Yes that is right.

Q You are filling it with Turner Valley crude?

A Yes.

Q Now you start filling that same market, assuming it is the same, you start supplying that with Sarnia gasoline made from Illinois crude?

A Yes.

Q Then that is the figure I suppose to take, the crude which you sell in the form of gasoline, the crude which you sell now in the Manitoba area is 2233 barrels a day?

A That is correct.

Q So that is a figure which I think the Chairman wants?

A Yes.

Q That is merely the Imperial's share of the market?

A Yes, that is for the Manitoba area.

Q That is the Imperial's share of the Manitoba area?

A Yes.

Q MAJOR LIPSETT: Is that all Turner Valley crude today, that 2233 barrels?

A Yes.

Q MR. FRAWLEY: Now I want to ask you a few questions about, without going over what we have said yesterday, about the Illinois situation because that seems to me to stand by itself---

Q THE CHAIRMAN: Now my difficulty at the moment is whether or not this witness is competent to speak about these matters, Mr. Nolan. He has made calculations which no doubt quite properly reflect his views, but we are talking about what is going to happen in Sarnia oil moving West. The witness does not have anything to do with the policies of these companies and so far as we have heard todate, he is not authorized to make a statement for those who have and I am just bringing to your notice, if we are going to act on evidence it must be evidence that we think is credible. I do not mean in the sense of

being untrue but a witness having the knowledge which justifies him speaking.

MR. NOLAN: What the witness says is that irrespective of questions of policy this Imperial Oil Company has no alternative but to supply these markets with a crude which they can buy more cheaply, so that perhaps we are not concerned with the question of policy so much as we are concerned with the question of economics, which we are able to judge just as much as the witness.

THE CHAIRMAN: Yes, but you see there is another side to it suggested by Counsel, that we can judge our field perhaps as well as the witness, that is how far it would be economically sound to close up their subsidiaries in the Mid-Continent field and scrap their pipelines in order to give a competitive field, competitive producers, the advantage of selling oil to them, even although they get it a little cheaper, is that economically sound, I do not know, but that would be a matter for the determination of those looking after tho policies of the company, after Mr. McGrath or somebody else had made such calculations as they desired.

MR. NOLAN: Would it not be a matter of the policy of the subsidiaries who own these producing fields and the pipeline, if they do?

THE CHAIRMAN: A matter for them, certainly.

MR. NOLAN: Yes.

THE CHAIRMAN: Subject always to what we all know and there is no reflection in it, that a parent

company in control directs the policy of its subsidiary. We would be stultifying ourselves to think otherwise and there is no reflection in saying it is so.

MR. NOLAN: And there is no impression in the minds of the Commission that it is improper.

THE CHAIRMAN: No, so really where all this gets us, if I may say so, in my view is "nowhere".

MR. NOLAN: Well just one moment, sir---

THE CHAIRMAN: Because there is the larger problem involved.

MR. NOLAN: Yes, but where are we going to draw the line because after all this Commission in its scope, may I say, its willingness to extend its inquiry, must be drawn to a limit at some stage and we cannot examine into the entire oil industry of the North American Continent, it seems to me that all these problems are interlocked with the problems of other fields.

THE CHAIRMAN: Quite so.

MR. NOLAN: But what I was going to say was, you will remember this witness is here today because of item 1 in Mr. Cottle's letter of January 16th.

THE CHAIRMAN: Quite, and he is giving us all the information he has and I have no complaint about it.

MR. NOLAN: And it is absolutely in accord with the request therein stated.

THE CHAIRMAN: Quite. But I want to point out, Mr. Nolan, and you do what you like about it, we have heard something of how the products from the Illinois field might reflect adversely upon Turner Valley. Now I am putting it forward now so that it can be considered, if it is thought that the Commission was to be influenced by any such argument, it must be established, and I suggest to you that without wider considerations than those to which this witness is able to direct his mind, the suggestion will remain without force.

MR. NOLAN: Yes, but providing always sir......

THE CHAIRMAN: The suggestion may lead one way or the other. It may hurt someone or help someone. That is neither here nor there. We want to know the facts if we can.

MR. NOLAN: As the evidence now stands the Commission will take cognizance of the economics and mathematics of the situation that these prices must be as these charts indicate in order to compete with these other crudes. Now the point which you want to know is whether we are going to use other crudes in lieu of Turner Valley, having regard to these differentials in price.

THE CHAIRMAN: Yes, because you see it might be, even though you could buy cheaper products from a stranger - and for all we know Illinois may be the Standard Oil. For all we know to date it may or it may not have a cent's worth of interest in that field. It has or it has not. If it has not we won't

assume that because a stranger will for the moment sell more cheaply than the Standard Oil subsidiaries that it will not continue to encourage those subsidiaries and the pipe lines thereof. We do not know that it would not be economically sound to do it. We agree with you they will do what is economically sound.

MR. NOLAN: They will have to do what is economically sound in order to remain in business.

THE CHAIRMAN: Quite so, and what is, we do not know, under all the circumstances. As you say this might involve getting information that if the Commission had to go and get it would be exceedingly difficult, on this branch of the case, anyway, and perhaps not worth its while. I only mention it because it occurred to me if you propose to argue when the time comes that there will in all likelihood be a reduction in the pipe line through put, then it is proper I should mention to you the considerations that seem to me reflect adversely upon that argument, so that if you wish to do anything about it you may. On the other hand you may not have any such thought of making any such argument.

MR. NOLAN: I am certainly going to argue that. I am going to argue that from every point of view that is available to me.

THE CHAIRMAN: I thought quite properly so and I make these observations now.

MR. NOLAN: Then the point is this you would like the policy more clearly defined by a witness who can speak as to policy?

THE CHAIRMAN: By a witness who can say to us this is what our Company is going to do, and these are our reasons and they are sound. At least these are our reasons.

MR. NOLAN: You will judge as to the soundness?

THE CHAIRMAN: Yes, as best we can.

MR. NOLAN: Quite so.

MR. COMMISSIONER LIPSETT: On the mathematical angle of it that you mentioned there I want to draw your attention to how far that carries us. You have a figure that was about 23,000 barrels refined each day at Sarnia. You have the expectation of the witness that 10,000 to 14,000 barrels of Illinois crude will be coming in by the summer?

MR. NOLAN: That is so.

MR. COMMISSIONER LIPSETT: That leaves us 9.000 to 13,000 barrels a day that are not in any way affected by the Illinois. That will be coming from somewhere else. Is there any difficulty in taking out of that line of 13,000 barrels, the two or three thousand barrels which today are going from Turner Valley and being used to supply the Manitoba market? There is nothing at all so far to show that the Turner Valley would be in any way affected by the Illinois crude.

MR. NOLAN: The point is this, sir, that at the moment they are importing 4.000 to 5,000 barrels from Illinois into Sarnia.

MR. COMMISSIONER LIPSETT: Out of 23,000 barrels?

MR. NOLAN: All right. In the summer they expect to import 9,000 to......

A 10,000 to 14,000, and it will keep growing.

MR. NOLAN: Whether it be five or nine or 14,000 the requirements of the Manitoba market are only 2,263 barrels.

MR. COMMISSIONER LIPSETT: Then how is Turner Valley affected?

A Because the 2,233 barrels are Turner Valley barrels.

MR. COMMISSIONER LIPSETT: And why must they be Illinois?

MR. NOLAN: Because it is cheaper.

THE CHAIRMAN: They can bring it from Sarnia to Manitoba a certain distance at a less price than they can get it from Turner Valley.

MR. NOLAN: It all gets back to the question of what is Turner Valley worth at the well in competition with the Illinois laid down in Manitoba through Sarnia, which is just a mathematical problem, forgetting policy altogether for the moment. Just what is it worth. Do not think of the posted field price in the field. That is not the way to approach it. Just as if we take a barrel of oil from Illinois to Sarnia, by boat or by train, and land it at the City of Winnipeg and put it down on the station platform. It has got a certain laid down price on it, X dollars let us say.

THE CHAIRMAN: You would start by saying we pay so much for the oil in the Illinois field?

MR. NOLAN: Yes.

THE CHAIRMAN: It costs us so much money to get it to Sarnia and it costs so much money to move it West and we can take it West to a certain point at

a certain price and those who cannot come from the West to the East that far at that money have got to suffer.

MR. NOLAN: That is precisely it. If a barrel say on the Winnipeg station had a price on it X dollars, and sitting beside it is a barrel of Turner Valley crude, and we look at that barrel of Turner Valley crude and we say "How much can we pay down in the Turner Valley for that oil, and get it here so that it can compete with this other barrel?".

THE CHAIRMAN: It sits beside that other barrel at the same price?

MR. NOLAN: Yes. You take into consideration the freight from Winnipeg all the way to Calgary and the pipe line charges, and you find yourself out at the well, and you take out your note book and you make deductions and you say to the producer at the well "I can only give you so much for that barrel of oil because it costs me so much more to get it into Winnipeg and it has to be in Winnipeg at a price at which it can compete with this Illinois." The answer is you can only expect to get the money that will enable you to compete with this Illinois crude coming through Sarnia, and that is what all these charts mean.

THE CHAIRMAN: So that if the pipe line with which we are immediately concerned.....

MR. NOLAN: And which is almost forgotten.

THE CHAIRMAN: Were a separate entity and would carry more cheaply it would greatly affect Mr. McGrath's calculations?

MR. NOLAN: It would affect the calculation only in one respect. If the Cutbank crude is at .80 cents you can take away all of the pipe line charge and still Turner Valley could not compete. It does affect his calculation.

THE CHAIRMAN: I am dealing with Illinois and Turner Valley at the moment. Not forgetting Cutbank.

MR. NOLAN: If we got a freight rate reduction.....

THE CHAIRMAN: If you got a freight rate reduction from Sarnia, or a boat rate reduction you could go further West. If you got a lower pipe line rate here you could go further East?

MR. NOLAN: Only with Cutbank crude at $1.00?

A That is right.

THE CHAIRMAN: As against Illinois. If the Cutbank were gone. If it were only Illinois and Turner Valley competing. Every cent you cut off the boat rate at Sarnia you could go further West, that is right?

MR. NOLAN: I would say so, and the same reasoning one would suppose would apply to every cent you got off the pipe line rate.

THE CHAIRMAN: You could go further East.

Q MR. NOLAN: Is that right?

A It depends on the influence of the Cutbank crude in the central areas.

Q Why do you talk about Cutbank crude? The Chairman puts this to me, you have two oil fields, one at Illinois

and the other at Turner Valley?

A Yes.

Q And every cent off the carrying charges on either branches of this thing will bring the product either further West or further East as the case may be?

A That is right.

Q Why do you introduce this Montana feature into it?

A Because the Montana fits into the centre here and it opposes Illinois crude. So Montana has to be considered.

Q Has to be considered?

A Has to be considered.

Q We cannot disregard it?

A No. Not for that particular area.

Q THE CJAIRMAN: You say Illinois crude pushes back the Mid-Continent field, which in turn pushes back Wyoming, which in turn pushes back Montana?

A Yes.

Q Is that right?

A Yes, that is right. In price.

Q In price, yes?

A That is right.

Q I understand that. But it is the mere up and down of the oil business. Sometimes crude is up and sometimes it is down, I suppose?

A That is right.

Q MR. NOLAN: Is that just right? Has it been up recently?

A It has not been up for some time.

Q How long? I am not sure about these declines in the

crude oil prices. Something was said about them yesterday. There has been a gradual increase or decrease in the price of crude?

A Recently it has been a decrease in the price of crude.

Q Has it gone up in recent years, as the Chairman said that it goes up and down?

A Over a number of years, yes.

Q Over the last three years what has it done?

MR. FRAWLEY: This is one of the dips.

MR. NOLAN: I know, but my pipe line is in the dip.

A Take Oklahoma or Mid-Continent. On December 1st, 1935, it was $1.00 per barrel. January 9th, 1936 it was $1.10 per barrel.

Q Then it does go up and down. It is an up and down market?

A Yes.

Q That is Oklahoma?

A That is the Mid-Continent.

Q That is the Mid-Continent and it went up and the last move has been down?

A Yes.

THE CHAIRMAN: I suppose if we had a war tomorrow it would go up at once?

A I cannot answer that.

Q What happened in the last one? Can you answer me that?

A No, I cannot answer you that. I was not familiar with it. I was too young at that time.

Q All you are saying amounts to this then as I understand it - and I am not depreciating by saying that is all you say - is that the discovery of a new field, call it for

this Commission the Illinois field, is a reduced price of crude oil generally in America?

A It has been one of the factors I presume yes.

Q Well, if it has affected the whole Mid-Continent field and the Wyoming field and the Montana field, and will affect Turner Valley I suppose, it will be general in its effect?

A There has been a reduction, there has been a reduction in the price of crude throughout the States.

Q On that account?

A I presume that is part of it yes. I do not know what all the factors are but I presume that is part of it.

MR.HARVIE: Mr.Chairman, if I may be allowed to interrupt for a moment and throw possibly a little different light as far as the picture I think our Company will paint as to its own operations. Illinois is a small factor.

THE CHAIRMAN: I was wondering if it could have this tremendous effect on the market.

MR.HARVIE: Primarily the factor, the controlling factor, looking at the situation as a whole, generally speaking - I cannot speak for the last few months or weeks as to where we get it - but as a whole our company's crude that is refined in the East comes from Texas now, with the result that it is the Texas crude that we will be competing with, if that situation still exists, in Manitoba. The same as the Imperial buying it from the Illinois crude field. The Illinois crude field coming in with a large quantity of cheap crude has had this influence throughout all the markets, all the,U.S. markets

as far as the production of crude is concerned. The price we are buying in Texas allows us to bring that crude in to compete with the cheap Illinois crude and thereby go into competition in Manitoba. I think that might be giving a slight summary of the evidence we are going to give with the result that possibly the suggestion made by you this morning will have to be answered in some other different way than by one witness or any one company. There are economic facts such as Mr. McGrath has disclosed in regard to his Company. No doubt the same type of information will be supplied from my Company. But if you want to go beyond that it really means you have to get an executive official that can speak for the policies of the companies as to what will be done.

THE CHAIRMAN: I mention Mr. McGrath and Mr. Gaby. I thought they were officials. That was my error.

MR. HARVIE: Quite frankly I doubt if there is any one man in any Company can speak on all phases and give the detail and give the executive end as well. I may be mistaken, but I cannot just quite conceive of an organization carrying on an extensive business.....

THE CHAIRMAN: The man you have coming is Mr.......

MR. HARVIE: Mr. Woolley. He is the superintendent or manager of refineries throughout Canada of the B.A., and I understand it was in his department that the purchasing of oil was also done

in part.

THE CHAIRMAN: You thought he would be a more valuable witness than Mr. Gaby?

MR.HARVIE: On that phase he unquestionably will be. It may be that Mr. Gaby will have to come. I think that illustrates the comment I made some time ago that it might be as well and save a lot of duplication if the whole picture of the industry was looked at before one phase was dealt with.

THE CHAIRMAN: We have heard that before. We are still going to pursue perhaps our wrong course. If there is anything that Mr. Gaby or anyone else can say, there is no duplication. They can say it now as well as two months from now, and none of his evidence is wasted because it is said at the time we are considering the pipe line matter. It is useful whenever we come to any other phase.

MR.HARVIE: I cannot say, but maybe it is possible Mr.Woolley has been instructed on these other points. But new points are arising every moment or two during the Inquiry and it is difficult to cover the position.

THE CHAIRMAN: After all the only thing that has been yet suggested - whatever suggestions there may be I know not ere we are through, but as yet the only part of this Inquiry that relates to the operation that is to be the subject of regulation, as indicated by the fact we are asked to strike a rate, is the pipe line. Hence the disposition of that matter. I do not know what may come out of this Commission. I know we are asked to really perform the function of a Utilities

[illegible]

Board, which presupposes regulations.

MR. HARVIE: I think that is true, Mr. Chairman.

THE CHAIRMAN: If you have any witnesses or anybody has - and I have said it so often that it seems idle repetition - any witness who would have any bearing upon this subject, it does not matter what other evidence they may give, let them give it. It is not lost or destroyed, because we give a decision in the pipe line case. It is there for use and as a basis for argument, and for our use in giving a recommendation on all these other phases. There is no purpose in duplication.

MR. HARVIE: Possibly I am wrong in saying duplication. But I may put it this way, it is not necessary to duplicate the refinery evidence but it may be necessary to hear all the refinery evidence and all the marketing evidence in connection with this phase of the Inquiry.

MR. NOLAN: My position is this, how do I know from minute to minute or from hour to hour what is going to come out of the evidence that these witnesses are giving. Now the question arose this morning as to a director giving evidence on the question of policy. We are going to find as this Inquiry goes along that there are other matters which will be required and which will be brought to light which might have a direct bearing on this pipe line rate, which I do not now see nor can anybody else in my position foresee what that evidence is going to be. The evidence is coming out and information is being led about new fields

board, which means, see reproductions.

[illegible] : [illegible] that is true.

[illegible]

[illegible] : [illegible] any witness

[illegible] - and I have said [illegible] that

[illegible] repudiator - and [illegible]

bearing upon this subject, it does [illegible]

evidence that may [illegible] them give it. It is not

lost or destroyed, because [illegible] give a decision in the

pipe line case. [illegible] or use and as a basis for

argument, and [illegible] a recommendation

on all the other [illegible]

[illegible]

[illegible] : [illegible] I am wrong in

[illegible] recollection. [illegible] may put it this way, it

is not necessary [illegible] the testimony [illegible]

but it may be [illegible] the [illegible] evidence

[illegible]

[illegible]

[illegible] information [illegible]

that are being explored all the time and that is my objection to dealing with the pipe line as a separate part of this report. There is nothing in the Commission to say that the pipe line is to be dealt with a priori. It simply says to report to the Legislature.

TYE CHAIRMAN: That is right. We may fall into grave error in deciding to deal with it separately, but we are, nevertheless, going to deal with it separately. We want to be quite fair and if there is anything else that affects it, while you do not know it and I do not know it but your principals should know it.

MR. NOLAN: They cannot know it, Sir, in my submission or anybody else, because this thing branches out into new avenues that we do not anticipate or contemplate.

THE CHAIRMAN: If so, it will be their misfortune or ours as the case may be.

MR. FRAWLEY: May I say then, my friend has called your attention to the fact, Mr. McGrath is here because of Mr. Cottle's item Number 1 in his letter to Mr. Nolan of the 15th of January. Now let us be quite clear about that. Mr. Cottle was not concerned at all with the pipe line rate. Mr. Cottle wanted to get from Mr. McGrath his complete figurations on the prices of crude so that Mr. Cottle could then proceed with his examination of refining and marketing costs. Now the matter quite lately became one of importance to the pipe line rate. That is the fear of diminution of the through put of the Royalite Oil Company's pipe line. I have never had any misgivings

personally - at least it is my submission whether I am wrong or not, - that there are two things to be solved and answered before this Commission can come to any real conclusion that there will be a diminution of through put. One is Mr. McGrath's figures on the paper, and secondly a resolution of the Board of Directors of the Imperial Oil Limited that they will put Mr. McGrath's figures into actual facts. At least that is my submission and that is why I have been - that explains the examination that I have made of Mr. McGrath. So I am a bit disappointed as I take it you are Mr. Chairman, that Mr. McGrath is not able to answer more than he can. I knew he could not because I have been associated with Mr. McGrath for the last two or three years and I know what his limitations are. He does his work. Mr. LeSueur or Mr. Smith and some other people put them into effect and perhaps the Jersey Company in New York puts them into effect. So I associate myself, if I may be so bold, with everything you say. But I will argue to you at the moment that unless we have evidence which goes further than the evidence that Mr. McGrath has now shown on these papers that there is nothing that this Commission can really decide that there will be a diminution of through put through the pipe line. I say this, and it perhaps is a solution of the whole matter, we do know what the through put was last year. Without any good evidence I presume the Board might feel it was justified in taking last year's figures and fixing a rate upon it, and then if, as Mr. McGrath says in May or June or July the Illinois

[illegible]

crude will move into Western Canada, and it will continue to move until the Illinois crude actually physically displaces the Turner Valley - it may go on for 4, 5, 6, or 7 months - then at that time this Company can go to the Public Utilities Board and get a rate if the facts are that the Illinois crude is becoming a physical fact - a change upward in the rate if warranted.

THE CHAIRMAN: That is all a matter for argument, in which we hope to get great help from Counsel for all parties who are interested. All I am doing now is not making a complaint, but having in mind that some day Mr. Nolan will probably argue that there is going to be a very different through put, that I have some doubts if on the evidence of the witness presently before us that it has been established. That is merely a friendly warning and not a bitter complaint. Mr. Nolan, of course, will do as he likes.

MR. NOLAN: I appreciate that. On that point one of the factors that is taken into consideration, and must be on the through put for this area, are crop conditions in Western Canada. Now no meeting of the Board of Directors of the Imperial Oil Company is going to affect that situation.

THE CHAIRMAN: Oh no.

MR. NOLAN: That only goes to make the point I am presently making, that there are these uncertainties which must be borne in mind. Perhaps this Illinois is one of those uncertainties which should be borne in mind. However, that is for argument.

THE CHAIRMAN: No. Another oil field might be found in Alberta which will affect the picture.

MR. FRAWLEY: If you are putting the Illinois crude and the risk of a new Western Canada crude we will know what we have to face.

THE CHAIRMAN: Is there something more? I am sorry to keep you standing, Mr. McGrath, but lawyers do argue at great length, and I include myself in that category.

Q MR. FRAWLEY: You say the Illinois crude must displace the Turner Valley crude because your company will lose too much money if they continue to pay present prices for Turner Valley crude when they can buy Illinois crude cheaper?

A I said that Illinois crude - Turner Valley crude was worth in the Manitoba area .5936 in competition with Illinois crude at $1.15 per barrel.

Q I am right, am I not, that you cannot afford to continue to pay the present Turner Valley crude prices?

A Not for that area.

Q Not for that area? Not for the Manitoba area?

A That is right.

Q And you get your money - Turner Valley crude goes to Regina and it is made into gasoline and other white products and shipped into the Manitoba area and there sold?

A Yes.

Q And then the marketing department gets the money from the service stations and the bulk stations from that Turner Valley crude?

A Yes.

James McGrath.

Q If the spread between the refinery door price of white products in Manitoba and the wholesale tank wagon in Manitoba is too big, there is too much spread there - if you are making too much money - I say too much money, an amount of money which perhaps some regulatory body or some Royal Commission may say was too much, or an unconscionable spread. If that is so, then one solution of this problem is to just take up the slack in the spread between the refinery door and the tank wagon.

A How do you mean, take up the spread?

Q Well, you say you cannot afford to pay the present prices for Turner Valley crude?

A That is right.

Q And if you do continue to pay it you will be losing money?

A Yes.

Q I suggest that you may be able right now to recoup yourself out of the too large spread between the refinery door price in Regina and the tank wagon in the City of Winnipeg. Whatever that is, X cents?

A In other words, raise the prices to take care of this loss?

Q No, not to raise them at all.

THE CHAIRMAN: To take less profit is the suggestion.

Q MR. FRAWLEY: To take less profit in the spread between the refinery door and the tank wagon in Manitoba. That would solve the whole matter?

A I do not follow you there.

Q You have a spread at the moment between the refinery door

Q If thi[illegible] the [illegible] price of
[illegible] prices and the wholesale [illegible]
wage [illegible] is too big, there is too much
[illegible] there - if you are paying [illegible] money -- I
[illegible] perhaps
[illegible]
[illegible] or on unsound [illegible].
If that [illegible] so, the [illegible]
to [illegible] clock [illegible] the [illegible]
[illegible] the [illegible].
Q [illegible] the present?
all, [illegible] effort to pay the present prices
for [illegible] order
A That is right.
Q [illegible] to pay [illegible] looking
[illegible]
A Yes.
Q I suggest that [illegible]
yourself out of the [illegible]
[illegible] in [illegible] in the [illegible]
[illegible]
[illegible] the [illegible]
[illegible]
[illegible]
[illegible]
[illegible]
[illegible]
[illegible] the [illegible]
[illegible] would [illegible]
[illegible] follow them.
[illegible] the [illegible]

price at Regina and the tank wagon in the City of Winnipeg. That is X cents?

A Yes.

Q That is X cents: Let us assume that that X cents is to you - just assume there is a big profit in that X cents?

A Yes.

Q Mr. Halverson is getting a big profit in the X cents?

A That is your assumption.

Q I am just assuming that.

A All right.

Q Nobody has inquired into it except the Imperial Oil possibly?

A Yes.

Q Nobody knows anything really about the spread between the reinery door price at Regina and the Winnipeg tank wagon, except the Imperial Oil people, that is true is it not?

A I presume so.

Q There is no Commission at the moment set up in Manitoba similar to this one to inquire into that X cents?

A No.

Q Which you know is one of the functions of this Commission. If there is a big profit in there, the simple bold suggestion is to continue to pay the present Turner Valley prices, continue to move the crude from Turner Valley to Regina, and to Winnipeg in the form of gasoline - leave everything as is - and take it out of the profit between the refinery door price and the tank wagon?

A I think the consumer in Manitoba would have something to

say about that.

Q Yes, he certainly might. But just for the moment putting him to one side......

A You cannot do that, Mr. Frawley.

Q Then on my assumption would you continue to take that profit there? What do you contemplate doing? Change the price structure in Manitoba if you bring in Illinois crude?

A I do not know what the sales policy is, but I presume it has to be changed because the crude is becoming cheaper for that area.

Q So that brings us right up against the Manitoba consumer, does it not?

A Yes.

Q Because you see there are some people are bold enough to suggest that that spread between the refinery door price and the tank wagon price is large and that might be used to take up some of the slack. What do you think about that?

A That is purely a suggestion on your part, Mr. Frawley. I prefer not to pass any opinion on it.

Q Now this Montana situation, you told me yesterday that you came out with certain information that you got from officials of your Company with respect to what crude could be bought for in Montana?

A That is right.

Q Who is the official of your Company that you would say is most able to discuss the Montana crude prices?

A I do not know Mr. Frawley.

Q Mr. Naylor?

A Mr. Naylor is not an official of our company.

Q Mr. Naylor is not an official of your Company?

A No, he is not.

Q Mr. Naylor is managing a subsidiary which brings the crude oil from Cygnet, Ohio, to Sarnia?

A Yes.

Q That is The Transit & Storage Company?

A Yes sir.

Q He manages that unit of the Transit & Storage Company?

A That is right.

Q THE CHAIRMAN: Who is that?

A Mr. Naylor.

Q THE CHAIRMAN: And is this Company a subsidiary to any of the companies we are hearing about?

MR. FRAWLEY: The Transit & Storage Company is a subsidiary of the Imperial Oil Limited, and Mr. P. R. Naylor is the manager of the Transit & Storage unit which brings the crude from Cygnet, Ohio, to Sarnia. He is at the moment.

A I believe that is his title, yes.

Q He formerly was managing the Transit & Storage unit which operated in Montana?

A That is right.

Q And while he was in Montana he naturally knew something about the crude oil situation there?

A He did yes.

Q And that is why I just suggested, was there anybody more familiar with the crude oil situation than Mr. Naylor?

A Well, in detail I think probably Mr. Naylor is more familiar with the Montana situation.

Q Yes, and Mr. Naylor has been out of Montana for quite a number of months, how long?

A I do not recall.

Q Well, he has not been there functioning for your company or any of its subsidiaries for a whole year, has he?

A Oh, yes, he was there in 1938, during 1938.

Q He was there some part of 1938?

A Yes.

Q Your company withdrew from Montana producing at the end of 1937?

A Yes.

Q What was Mr. Naylor doing there after that?

A I do not know his duties, I cannot say, I do know he was moved east some time during 1938.

Q What I am suggesting is that it would appear that your company has not had any first-hand knowledge of the Montana crude situation since it pulled out in November, 1937, is that not a fair statement to make?

A Well, I do not think that, because Mr. Naylor has left the field that we have not been kept posted on the situation in Montana.

THE CHAIRMAN: The witness does not pretend to know about Montana. He says he has heard or they have heard, speaking of the company, that it was sold at 75 cents and 80 cents.

MR. FRAWLEY: That is the same thing, that is all there is to it.

THE CHAIRMAN: The witness can only say what he knows.

MR. FRAWLEY: Yes.

THE CHAIRMAN: And if the evidence ends there all right, we will give what weight to it as we see fit.

MR. FRAWLEY: Well, I do not think there is anything else I wish to ask Mr. McGrath.

Q THE CHAIRMAN: When you were figuring, when you were making your calculations, Mr. McGrath, I suppose you took the present pipeline rate?

A Yes.

THE CHAIRMAN: Any other questions?

MR. PLOTKINS: I would like to ask some questions.

THE CHAIRMAN: Go ahead.

MR. PLOTKINS: Before I ask those, I think it would be relevant for me to point out certain facts.

THE CHAIRMAN: Mr. Plotkins, you cannot do that.

MR. PLOTKINS: In connection with this matter of policy.

THE CHAIRMAN: Mr. Plotkins, we will always be glad to hear you as a witness but when you are acting in the field of examining counsel for your companies you must just ask questions. Now, no one is shutting you off. If you want to give evidence you go into the box and give it like any other witness and submit to cross-examination. When you are occupying the field of examining, just examine, they cannot be mixed.

MR. PLOTKINS: All right, very well.

Q MR. PLOTKINS: Mr. McGrath, in running or in handling your position in the company, are you guided by any written instructions in the matters of policy insofar

as they affect your department?

A Personally, no.

Q You have no book in your department purporting to guide the actions of your department according to a set parent standard, a standard set by the parent company?

A Mr. Plotkins, you being in the oil business, you know how quickly conditions change. There can be no book or set policy.

Q Matters of general policy?

A I have no knowledge of matters of general policy.

Q You have no knowledge of any record or any books of instructions in your department that would guide you in doing your work in conformity with the other units of the Standard Oil of New Jersey in any other part of its business, so as to make it uniform?

A That is right.

Q In practice?

A That is right.

Q Is there any such?

A There is no such record.

Q No such book in your department?

A In my department.

Q So that you have to deal with matters as they arise?

A Yes.

Q By the method of consultation with the various departments, in other words, in order to ascertain facts, when a new situation occurs such as the one you have just given us a picture of, you are then compelled to consult other departments so as to get the information and accurate information and arrive at a figure for your charts?

A We are under the direction of Mr. McCloskey, and we take our orders from Mr. McCloskey.

Q I will put one to you, it would be necessary for you to know the netback to each refinery for a barrel of product?

A Just what do you mean, Mr. Plotkins?

Q The refinery netback; in other words, what would the refinery receive in dollars and cents for a barrel of Turner Valley crude processed and turned out into products?

A This is dealing with prices of raw material, there is no price of products considered in this.

Q In this set-up you have not considered prices received by the manufacturing department?

A By the sales department, no.

Q By the manufacturing department?

A No, the manufacturing department makes the products and the sales department sells them.

Q So that in these computations you have not concerned yourself with what a barrel of crude brings to the company at any one time?

A No, this here is what Turner Valley is worth in competition with competitive crude, it is raw material, the cost of raw material, which has nothing to do with the selling price at all.

Q Well, then, if that is the fact......

Q THE CHAIRMAN: Of the same gravity?

A Yes, the same quality.

Q MR. PLOTKINS: How were you able to value the difference in gravity?

A By the difference in the products in the crude.

Q You must place some value on those?

A In making the same barrels of gasoline, the same barrels of

kerosene, and the same amount of distillate and the crude has an average of heavy fuel......

Q And what value have you placed on that?

A The marginal value, that is the lowest value we can sell it for.

Q Then you have taken into consideration the selling price of fuel oil?

A In that case, yes.

Q So that selling prices influence your calculations, to that extent?

A To the extent of fuel oil.

Q However, for the benefit of this Commission and I would like to know too, so that I can intelligently question you, how can you make calculations on the different values in terms of gasoline of the Turner Valley crude as against the Illinois crude, if you do not take into consideration values?

A Of fuel oil, we take the difference in value of fuel oil.

Q I mean if you do not take into consideration the value of the refined products?

A Because we make the same barrels of products from each crude, except fuel oil. You have a heavier crude and there is more fuel oil in the heavier crude.

Q So you have estimated that a barrel of crude will make so many barrels of the standard products?

A That a barrel of crude will make so many.

Q So many gallons of gasoline?

A Yes, and the rest of the products.

Q THE CHAIRMAN: Other than fuel oil?

A Yes, all products to meet the market.

Q Other than fuel oil?

C2
6

A Yes.

Q MR. PLOTKINS: I understand. Now, then, you are assuming that a barrel of crude from Turner Valley and from Illinois will make a proportionate amount of gasoline, kerosene and distillate?

A That is right.

Q Alike?

A Make the same barrels, that is, a greater number of barrels of Illinois will make the same amount of gasoline as a lesser amount of Turner Valley.

Q Insofar as gasoline is concerned, I follow your argument and calculation?

A Yes.

Q Because in the process you can transform every bit of that crude, and I want you to tell me if that is correct, into gasoline and fuel oil?

A That is correct.

Q But you cannot control the process so as to make so much gasoline or the equivalent of a comparable quantity of gasoline and distillate out of another barrel of crude?

A Oh, yes, you can.

Q You can?

A Yes.

Q You are assuming in your calculation?

A Yes.

Q That you can take a barrel of Turner Valley and produce more gasoline and an equivalent amount of kerosene, an equivalent amount of distillate and more fuel oil, is that your method of computation?

A Well, when you say more gasoline......

Q Yes?

A Then what comparison have you got to make? We run the

C2
7

crudes to suit the market, that is to balance the market, whether we make it from Cutbank crude or Illinois crude or Turner Valley crude.

Q So what you are showing, in fact, through your charts, is that you are converting a barrel of Turner Valley and a barrel of Illinois crude into the required amount of the different products to suit the market?

A Both crudes to suit the market?

Q Yes?

A Yes.

Q That is what you are showing in fact through your charts?

A That is correct.

Q So when later on we deal with barrels, we will be able to consider that the quantity of kerosene recoverable from Illinois or from Turner Valley for your purposes is the same?

A The barrels daily are the same.

Q Yes?

A But the barrels of crude are different.

Q THE CHAIRMAN: I do not just know that I follow this and I want to. You give a price of $1.15 for Illinois?

A Yes.

Q Per barrel?

A Per barrel.

Q Now, in the making of gasoline that will make as much gasoline as one barrel of Turner Valley, will it or not?

A No, one barrel of Illinois crude makes the same products except heavy fuel oil as .887 barrels of Turner Valley.

Q .887 barrels?

A .887 barrels.

Q And when you are comparing the prices paid were you taking

that into account?

A Yes.

Q That is what I wanted to be sure of?

A Yes, that is right.

Q MR. PLOTKINS: So that for methods of comparison we disregard the relative contents of gasoline and distillates in the various crudes?

A I do not follow you, Mr. Plotkins.

Q Well, you have just told us that you have reduced the two crudes to a common denominator, so many barrels of products as required by your markets and so much fuel oil and valued them accordingly, that is what you have done in these calculations, you have said a barrel of Illinois crude as against a barrel of Turner Valley crude is worth so much money and the reason it is worth so much money is because there is so much more fuel oil in that barrel of crude, the rest of the products are equivalent?

A Make the same barrels per day from the different barrels of crude.

Q That is right?

A Yes.

Q So that for questions of valuing, the relative values of the different products does not enter into it?

A It does not. We make the same barrels from each case.

Q You understand that is important when we come to deal with the marketing end?

A The selling price.

Q I am taking the Chairman's cue in respect to this information.

THE CHAIRMAN: Well, hardly a cue.

MR. PLOTKINS: Or suggestion.

MR. FRAWLEY: Where angels fear to tread.

Q MR. PLOTKINS: At the time that the Imperial Oil Limited posted the price of $1.30 for the 8.9, that was on January 5th, 1938?
A Yes.
Q Were you in charge of this same work?
A I was not in charge of it, no.
Q You were not in charge of it?
A No.
Q Are you able to give us or to give any information as to what factors were taken into consideration at that time?
A It is the same principle as we have applied to-day.
Q The same principle?
A Yes.
Q Now, at that time can you tell us what fields were in direct competition with Turner Valley crude?
A The Mid-Continent crude in the east and Cutbank crude in this area.
Q For the present we will disregard the Manitoba market and deal with the rest of the markets and insofar as the importation of Montana crude is concerned, can you tell us what price at that time, what was the posted field price of Montana crude or Cutbank?
A I do not know what the posted field price was.
Q Can you refer to anything?
A To, according to the magazines there has not been a posted field price for some time, it was taken out about November, was it?
Q Well, on January 5th, 1938, was there a posted price for Cutbank crude?
A Not to my knowledge, Mr. Plotkins. I do not know.
Q I will look it up. I apparently do not see any published pipeline price for Cutbank crude on January 5th, 1938.

Have you any records which would tell us about that time what the posted field price was?

A No, I have not.

Q You have no records of that?

A No.

Q Well, is it reasonable to infer that at that time the price paid or the posted field price, prevailing price, was higher than it is at this time?

A The posted, I do not know what the posted price was, Mr. Plotkins, or if there was one, I do not know.

Q But at that time the Imperial was buying, was still buying some crude in Montana?

A In January?

Q January, 1938?

A No, I do not believe they were. They started on Turner Valley crude in Regina about October or November, or I believe, and we had a stock of Cutbank crude on hand at the refinery and some, I believe, at Coutts or some place, before, and we ran that all out, but we have not bought any since then.

Q I have followed the Montana Conservation Board figures as to exports into Western Canada and if my recollection is correct, it was a considerable, a respectable quantity, and you say that the Imperial, I am not saying, it may be that other companies imported it, but the Imperial, so far as you know, did not import at that time any appreciable amount of crude?

A No, sir, I think a small quantity of Pondera crude, I think probably about 150 barrels a day.

Q At that time the Illinois crude was not available, was not a competitive factor?

C2
11

A Not the new field. It has just come in.

Q In your charts, you have used in 1, 2 and 3, the figure of 80 cents and 90 cents and $1.00 for Cutbank crude?

A Yes.

Q Is that your idea, or your company's idea of what the Imperial could buy its requirements in Cutbank for at this time?

A The opinion of our people is that we can buy the Regina requirements somewhere under 95 cents per barrel.

Q Somewhere under 95 cents per barrel?

A Yes.

Q Now, have you anything to do with the buying of crude?

A No, I have not.

Q So you are not in a position to say anything about that?

A No, I am not.

Q You mentioned in your testimony that Illinois crude could be purchased at 60 or 61 cents?

A According to the National Petroleum News, yes, that is where I got that.

Q That would be for small amounts, what would in the trade be known as "spot purchases"?

A I do not know the quantity.

Q But can you tell us if your company went into the market, in the Illinois field, and endeavoured to contract for six thousand some barrels, which you would require in your Regina refinery.......

A Illinois crude, Mr. Plotkins?

Q Yes, I am assuming that you are even displacing Turner Valley in the Regina refinery for the present, could you go into the field, into the Illinois field, and purchase on a contract over a period of time any such quantity at 60 or 61 cents?

A Well, I do not like to pass my opinion on a supposition, Mr. Plotkins.

Q Well, you have a wide knowledge of crude conditions as they affect.....

A Our company has.

Q As they affect the operating ?

A Our company has, not personally.

Q You have no knowledge as to what conditions you would have to face, if you were suddenly to drop into the Illinois field and wanted to contract over a period of time?

A Personally, no.

Q So that these figures of 60 and 61 cents are plain supposition?

A It is an indication from the National Petroleum News.

Q Now, when you said that, or when you allowed in your charts so many cents per barrel for extra treating?

A Yes.

Q And leading?

A Yes.

Q Where did you get your information as to that fact?

A From the operations of our refinery.

Q Your refinery where?

A At Regina and Calgary and Sarnia; treating the Illinois crude at Sarnia, the Cutbank crude when we had it at Regina and the Cutbank crude when it arrived at Calgary as compared with treating Turner Valley crude.

Q Are you familiar with the treating operations in your company?

A No, I am not. I do not know anything about the details of them.

Q You are not in a position to discuss whether it is economicall correct or sound to say that it should cost that much more to

treat Turner Valley as against Mid-Continent or against Cutbank?

A Well, I suppose our refinery superintendent will treat it as economically as possible.

Q So you must have consulted some official in the refinery department, or the refinery department itself, to get these facts?

A No, that is our cost in Calgary, that is what they report.

Q As supplied to you?

A Yes.

Q By the refinery department in Calgary and Regina?

A That is right.

Q Imperial did not post any prices in the Cutbank field when it was purchasing crude, do you know?

A I do not know.

Q You do not know?

A I do not know.

Q Are we to understand then when the Imperial was making purchases of crude for their Western Canadian requirements that they were paying the prevailing posted field price at Cutbank?

A Well, I do not know the details of that, Mr. Plotkins, and I cannot answer that, I have never seen the invoices.

Q When you were making computations for the purposes of comparing values between Cutbank and crude from any other field then available?

A Yes.

Q At that time?

A Yes.

Q You would naturally have to know the cost of the crude in Cutbank?

A That is right.

Q And would you not reasonably assume that that would be the posted field price at Cutbank at the time you were supplied?

A If we were paying the posted field price I think it would but I do not know just what we were paying. I presume we were paying the posted field price but I do not know.

Q You presume you would be paying the posted field price?

A I presume so.

Q Do you know who you were purchasing from at that time?

A No, I do not know. Mr. Naylor did the purchasing for us.

Q If I suggest to you at that time the Imperial was purchasing its crude requirements mainly from the Texas Company holdings in the Cutbank field, would that, would you agree with me?

A No, I do not know, no, I do not know, I have no knowledge of it.

(Page 3939 follows.)

Q Then when you were making the computations in these charts on the basis of 80 cents for Regina and 90 cents for Calgary or $1.00?

A No, it was $1.00.

Q Were you assuming your Company could go down to the Cutbank field at that time and make two different prices? Or one price for Regina and one price for Calgary?

A Oh no. Turner Valley is in Calgary to stay. Cutbank, I do not imagine will ever come into Calgary.

Q It will never come into Calgary?

A Unless something happens to Turner Valley. Now we are dealing with Regina. We can go out, and in our opinion buy Cutbank crude for Regina somewhere under 85 cents.

Q But you see you tell the Commission that the reason the price is $1.20 or $1.30 for a given grade, is because of the average?

A Yes, that is right.

Q The price you can afford to pay for the operations at Calgary and Regina, and even taking into consideration the Manitoba market?

A That is correct.

Q Now when the Imperial was refining Cutbank crude, it was faced with exactly the same situation?

A No, Mr. Plotkins. There are two fields now. There was just one at that time.

Q True, but I mean economic considerations? You were faced with the same factors that you had to provide for your marketing set-up in the Regina territory and in the Calgary territory, and in competition -

and did not necessarily allow you to get enough to cover the extra charges - but in competition with other retail prices, did not necessarily allow you sufficient to take care in that of any extra charges that might be necessary to lay down the Cutbank crude into Regina?

A You are talking about selling price. I am not prepared to say and I do not know anything about them.

Q I am saying in your computation now, you reviewed two factors, one for the Calgary Refinery and one for the Regina Refinery?

A That is right.

Q And quite properly, and when the Imperial was purchasing crude in Cutbank it had the same considerations to face, the same factors to face, and it accordingly had to make up its mind how much it would pay for crude in Cutbank?

A It depends on whether it was a buyer's market or a seller's market, Mr. Plotkins.

Q Then your contention is that irrespective of the conditions prevailing in Turner Valley, in your marketing set-up, in your marketing operations, that the Imperial Oil - that you went to the Cutbank field and paid the prevailing field price. Is that what I am to understand from your remarks?

A Well I do not know as I told you before. I have not seen the details.

Q How long have you been in charge of this particular work with the Imperial Oil?

A The last few years. The crude oil department, that is a separate department, handle the invoices for crude oil.

I have not seen those. It is more statistical work that I am on.

Q I am not concerned so much with the price of crude oil as I am with the mechanics of arriving at the value for crude oil that your company so precisely goes into, and quite properly. Who is the man in your organization who can tell us at what prices they purchased crude oil in Montana previous to the Turner Valley crude being purchased?

A I think Mr. Naylor would be more familiar with that.

Q Mr. Naylor would only be given instructions that he could afford to pay so much. Now someone in your organization has calculated the value of that crude to you, and then Mr. Naylor was instructed that he could go and pay so much and contract for so much. You are the man apparently who, at this stage, has helped to decide the value of the Turner Valley crude as compared with other competitive crudes. Now someone previous to January 5th, 1938, made these calculations for the guidance of your Company. Were you the man?

A No, I was not the man.

Q Can you tell us who would be the man who would make those calculations?

A You mean decide the price Mr. Naylor paid? I do not know what Mr. Naylor paid. First of all we would have to establish whether he paid the posted price, and the rest is supposition until we know that.

Q THE CHAIRMAN: The suggestion is, Mr. McGrath though, that someone gives Mr. Naylor his instructions and if so who is it?

A The crude oil department in Toronto gives Mr. Naylor instructions to buy so many barrels of crude. I do not know anything about it.

Q Or whether they give him instructions or limitations?

A No, I do not know.

Q Who would know, in your organization?

A I presume the Crude Oil Department.

Q We cannot ask the Crude Oil Department to give evidence. Who? What human being would have that knowledge, if you know?

A Well I presume Mr. John R. Simpson would be the man that would have that information. He passes the invoices and that sort of thing.

Q MR. PLOTKINS: Might I suggest to you that the reason you do not know is that that figure, whatever it is, is given to the Imperial Oil from New York, by the Standard Oil of New Jersey?

A I beg pardon.

Q I am asking you, not making a suggestion?

A That is the reason I do not know. I say I do not know. That ends it.

Q You say you do not know?

A I do not know.

Q You do not know how it is made?

A No, I do not.

Q Then is it possible that that figure is not computed in Toronto?

A I am not dealing with supposition. I say I do not know. I am under oath and I say I do not know.

Q That is all right., You do not know. That is all. You do not know of anyone who does know?

A I mentioned Mr. John R.Simpson.

Q You told us Mr.Simpson O.K.'s the invoices?

A He is the man who deals with the purchasers of crude oil and he passes the invoices and that sort of thing.

Q Who actually gives the instructions to purchase and sets the price at which......

A I do not know about setting the price.

Q So we are going to have to find that out, who it is, before we can intelligently weigh your calculations in the matter of these three reports, and the method that you applied to Turner Valley in arriving at a price. Am I right in saying your computations are based on competitive factors?

A That is right.

Q And that these competitive factors do not necessarily originate in Canada?

A That is right.

Q When they are beyond the bounds of this country it would be reasonable to assume that the Standard Oil of New Jersey, your parent company, would have statisticians and proper departments to weigh these different competitive factors. Would not that be reasonable to assume that?

A I am not assuming anything. I cannot assume anything if I do not know.

Q Where did you get your information from as to what could be obtained in Illinois or in the Mid- Continent?

A We are buying Illinois crude now. We are actually buying it. We know what we pay for it. As far as Montana is concerned our people have evidence from people in that field what the situation is.

Q Now I will clarify that. Mr. Frawley made the remark or at least asked you a question in regard to Mr. Naylor's position?

A Yes.

Q It was said this morning that Mr. Naylor's position is manager of the Transit & Storage Company, that is correct?

A That is right, yes.

Q And it was said that the Transit & Storage was a subsidiary of the Imperial Oil?

A That is right.

Q Well is that correct?

A That is correct, yes.

Q May I suggest to you that Transit & Storage is a subsidiary of the Standard Oil of New Jersey and not Imperial Oil?

A It is a subsidiary of Imperial Oil.

Q Imperial Oil?

A Imperial Oil.

Q So that you say to the best of your knowledge that all the factors - all the weighing of the competitive factors originating in the United States or elsewhere, are taken into consideration and computed by the Toronto offices of your company?

A That is right.

Q And that is the information that they use in their calculation, and does not come from the Standard Oil of New Jersey, the New York offices or any other office of the Standard Oil?

A Not to my knowledge, no.

Q Not to your knowledge?

A Not to my knowledge, no.

Q Does the Imperial Oil have agents and information services that would permit them to accurately gauge these various factors, competitive factors, in the United States or in any other part of the world?

A Agents?

Q Yes, agents or officers, intelligence facilities and information facilities?

A No, I do not think that they have.

Q So that they would have to rely on the parent organization for that service. It is no crime and we are not imputing any?

A Well I do not know about that. It may be the judgment of the executives of our company. With their experience they probably are able to.....

Q Would experience necessarily give them true and correct information as to what is taking place somewhere else?

A We are furnished with periodicals just as you are as to the situation in different fields.

Q You are now telling us your Company relies on these periodicals to get correct information?

A No, but that is a source of information.

Q That is one source?

A That is one source of information, yes.

Q It is not the only source of information? You would not take the figures that are published as absolutely accurate and just use them without going into them to find out if all the factors are properly weighed?

A That is right. No.

Q You would have to have some other information?

A Yes, that is right.

Q Coming back to this question of the Cutbank field, because I believe it is very important, you are not in a position to tell us who actually instructed Mr. Naylor - who actually did instruct Mr. Naylor to purchase in the Montana field for the account of Imperial Oil?

A I said - that was handled by Mr. John R. Simpson, in Toronto.

Q He is the man who instructs them?

A He is the man who handles that situation. I do not know the details of that. I have never been in that department.

Q Now in weighing the values of Illinois crude as against Turner Valley crude would you be concerned with the cost of producing crude oil?

A The cost of producing crude oil?

Q The cost of producing crude oil?

A No. It is the cost to us.

Q That is all right. Do not get excited. The cost of producing crude oil has not been given any weight in these charts of yours?

A That is right.

Q So that if the cost to your company, direct and indirect, of producing a barrel of crude oil, or all their requirements.rather for this market is lower than the actual amount of money that your Company would have to pay for to bring in Illinois or any other crude, you could still disregard the posted field prices and weigh them in the light of actual cost?

A We pay the posted field price in Illinois, Mr. Plotkins.

Q Yes, that is right.

Q Getting back to the operation of the [illegible] field, because I feel it is very important, you are not in a position to tell us who actually instructed Mr. Taylor — who actually did instruct Mr. Taylor to purchase in the [illegible] field for the account of Imperial Oil?

A I said it was handled by Mr. John [illegible], in Toronto.

Q Is he the man who instructed them?

A He is the one who handled that situation. I do not know the details of that. I have never been in that department.

Q Now in weighing, the [illegible] of Illinois crude as at [illegible] Turner Valley [illegible] you are concerned with discount [illegible] company [illegible]

A The [illegible] still.

Q The cost of [illegible]

A [illegible]

Q That [illegible] not yet [illegible]. The [illegible] [illegible] from any weight [illegible]

A [illegible]

Q [illegible]

A [illegible] field [illegible]

Q I am not saying you do not?

A Yes.

Q But the Royalite Oil Company is a subsidiary of the Imperial Oil?

A We own a substantial interest.

Q You own a substantial amount of that stock?

A That is right.

Q If the Royalite Company, as has been disclosed in this Commission, can produce a barrel of crude for 79 cents, and produce sufficient of it to take care of this Western Canadian market, and if you add the factors you have added in these computations to the 79 cents as against the $1.30, would not the result influence the decision of your Company as to what they would buy from some other field?

A We as refiners purchase crude. We do not produce crude. We purchase crude.

Q Are you still going to maintain this fiction that your left hand does not know what your right hand is doing?

A As refiners we purchase crude.

Q You are not only a refining organization, but you are producing?

A The Imperial Oil, no it is not.

MR. NOLAN: Oh no.

Q MR. PLOTKINS: The Imperial is not, through its subsidiaries, a producing, refining, transporting and marketing organization?

A The Imperial Oil is not a producing organization. Imperial Oil.

Q Well is it not through its parent company and its subsidiaries a completely integrated organization?

A We are talking about the Imperial Oil. I am talking about Imperial Oil, and we are dealing with the Imperial Oil.

Q No, we are dealing with the operations of the Imperial Oil as a component part of the Standard Oil of New Jersey, the parent company, because you realize it is impossible to discuss or investigate anything unless you take the organization as a whole.

A Then, Mr. Plotkins, it is not me you want to question. You will have to get someone to question on these problems from the Standard Oil or the Imperial Oil or Royalite. I am Imperial Oil.

Q You in making these computations agree you have not taken into consideration costs. It is just merely the purchasing situation?

A That is right.

Q You also told us that the posted field price is posted by Imperial Oil?

A That is right.

Q And in posting that price they use these various factors you have given us?

A That is right.

Q In arriving at values?

A That is right.

Q So that you still want to say that costs have nothing to do with......

A Cost of production?

Q Yes, cost of production has nothing to do with the amount of money that your Company will pay or had nothing to do with where they will buy it, whether from this Company or from their own subsidiaries?

A That is right.

Q Don't you realize that is pretty hard for a man of average intelligence to assimilate?

THE CHAIRMAN: Well that is an observation rather than a question surely.

Q MR. PLOTKINS: In buying crude in the Illinois field, would your Company not be influenced by other factors besides the ones that you have taken into consideration in your charts, in the computation of your charts, such as the possibility and probability of some of this crude, some of this Illinois crude finding its way into Western Canada, to independent refineries and influencing the market for refined products?

A Mr. Plotkins, we pay $1.15 per barrel. I cannot answer on supposition.

Q You say that is a matter of policy and you do not have anything to do with that?

A I did not say it is a matter of policy. I say other factors than that have not been considered in these figures.

Q So you would not be in a position to tell us whether the comparatively small amount of crude that your company purchases in the Illinois field would not be that much crude that might and in all probability does influence the market for refined products at the present time, due to temporary flush conditions in the Illinois field?

A No, I cannot answer that. I do not know.

Q That is not in your department?

A No, I cannot answer that.

Q Why do you use the $1.15 which I understand is the posted

field price in fact in the Illinois field.

A That is what we pay for it.

Q That is what you pay for it?

A Yes.

Q And in your computations a probable figure for Cutbank crude?

A Because there is no posted price for Cutbank crude to my knowlddge.

Q Have your company to your knowledge made any investigation as to the possibilities of purchasing your requirements in Curbank crude at the present time?

A We have obtained evidence that it has been purchased for as low as 75 cents a barrel.

Q True, but has your Company gone down there and made investigations to find out what you could buy 6500 barrels a day for, at least for one year?

A No. The determination is when you buy it. When you go down and make a definite.......

Q Is it the habit of your company to buy from day to day? Do you normally expect your company to go into the market and buy on spot from day to day?

A I would not think so.

Q No, they buy on contract.

A Well I do not know whether it is on contract or not. They would not buy from day to day. They have to be sure of their supplies.

Q So they would need to have a definite commitment from the producer?

A That is right.

Q Have you any experience in going out in an oil field and endeavouring to secure contracts for a definite period of

time from any producer?

A No, I have not.

Q You would not know that invariably they want the posted field price?

A I would not know that.

Q So that you are quite definite that these computations have no relation whatever to market prices?

A That is right. Except in the case as you point out of fuel oil.

Q And that is a minor matter?

A That is right.

Q And that fuel oil is put in the value, and the fuel oil is taken into account?

A The difference in the quantity of fuel oil.

Q MR. PLOTKINS: And the value.

A And the value, that is right.

Q THE CHAIRMAN: In your calculations that is what you have considered?

A That is right, sir.

Q MR. PLOTKINS: Assuming you were going down today to the Cutbank field and had contracted for Cutbank crude for your Regina refinery. I am to understand it is not practical at the present time to consider the possibility of Cutbank crude displacing Turner Valley crude in the Calgary area. That is not within the realms of possibility as pictured in your charts.

A Because Turner Valley is here.

Q But in Regina you may be faced with the question of whether it would be more profitable to handle Cutbank crude as against Turner Valley?

A That is right.

Q So that if tomorrow you went down to the Cutbank field and made commitments for whatever time you saw fit, how would that oil be transported to Regina, do you know?

A Either by tank car direct from the field or through the pipe lines to the border and from Coutts over.

Q Do you know that this pipe line is no longer in existence?

A There is a pipe line there, sir.

Q There is a pipe line but it has been sold by your Company is not that correct?

A There is the, wh t is it, the Toronto pipe line.

Q The Toronto pipe line, I am informed - and I want you to correct me if you know - is also partly dismantled, and in fact is now being reversed so as to take care of a newly discovered field and crude is going the other way instead of coming to Coutts.

A I do not know. That is the Toronto pipe line is it?

Q Yes, that is the Toronto pipe line. Now the Transit & Storage pipe line you say is not available?

A No, the Transit & Storage company is not.

Q So that it is only the two lines that went into Coutts, is not that a fact?

A There were only two lines?

Q Only two lines?

A To the best of my knowledge, yes.

Q There were actually three lines, but the Illinois pipe line has been taken up. I have seen that with my own eyes so we can disregard that?

A Yes.

Q There are only two other lines, or there were?

down to the Osborne field

[illegible] ever time you saw it,

[illegible] ing, do you

[illegible] reet from [illegible] or through

[illegible] nts [illegible]

[illegible] nger in

you know [illegible] this [illegible]

[illegible] statement?

[illegible] the line there, sir.

[illegible] line but it has been sold by your

company is not that correct?

There is also, [illegible] the Toronto pipe line.

The Toronto pipe line, I am informed - and I want you

to correct me if [illegible] - is also partly dismantled,

and in [illegible] being [illegible] as to take out

of [illegible] field [illegible] is going [illegible]

[illegible] Courts.

I do not know. [illegible] Toronto pipeline is [illegible]

Yes, that is the Toronto pipe line. Now the transit

company [illegible] line you say [illegible] was dismantled?

[illegible] not.

So that is [illegible] lines [illegible] than [illegible]

is not [illegible]

There [illegible] on [illegible] lines.

[illegible] line

[illegible]

[illegible]

A Yes.

Q If you eliminate the Illinois pipe line?

A Yes.

Q And neither one of these lines is available at this time, so you would have to ship all the way from Cutbank to the Regina refinery?

A There is nothing to prevent us from relaying that line, Mr. Plotkins.

Q Do you consider that your Company would relay a line for a temporary situation?

A Well it might not be a temporary situation.

Q Well in the light of your experience would you not say, under what you have already told us, that the economics of the situation would force a condition in Turner Valley where the Turner Valley producer would accept less for his crude and compete?

A I do not just follow you there.

Q Well now, it would be temporary if there was crude available in Turner Valley, and it was pressing on the market. As soon as that crude available in Turner Valley came down in price, it would displace the Montana crude?

A It would equal the Montana or it might come lower.

Q As soon as it came to the price.....

A Equal or lower.

Q So that your company would not be justified at this stage with the Turner Valley development as it is today in going into the Cutbank and even considering relaying the pipe line?

A Well that is your opinion.

Q For its Regina requirements?

A That is your opinion. My opinion is I do not know.

Q You think that would be a reasonable proposition?

A I do not say it would be reasonable, but it is a probability.

Q It is a probability?

A Yes.

Q THE CHAIRMAN: Who would provide you with the information as to the cost upon which you base your figures? The cost of transportation?

A We used the same rates we had at the time we were purchasing this crude down there. That is all we have.

Q For transportation?

A That is right.

Q And if it should be so that these pipe lines are now not available, it would be a very different picture?

A Well I do not know whether they are available or not. Mr. Plotkins says they are not available. I do not know.

Q MR. PLOTKINS: Well, Mr. McGrath, you came here to give the Commission definite information on which to base their judgment.

THE CHAIRMAN: No, Mr. McGrath came here pursuant to a specific request, and he is giving information within his knowledge. Perhaps there should be other witnesses and so on. That is neither here nor there. That is not Mr. McGrath's fault. He will answer anything within his knowledge, and beyond that he properly refuses to answer.

Q MR. PLOTKINS: Would you not make sure before entering into all these calculations as to what

the conditions were that now prevail at Coutts and Cutbank and so on, so as to givo us figures that would be possible. In other words, you have made your computations on the basis of the prevailing conditions at the time you used mostly Cutbank?

A Yes.

Q But now conditions have changed?

A Yes.

Q Now were you not in a position to ascertain that before you came here?

A Well I was not aware that there was no pipe line into Coutts. I still think there is a pipe line into Coutts.

Q You still think there is?

A Yes.

THE CHAIRMAN: That is a matter easily established, I suppose.

A You can establish that.

Q MR. PLOTKINS: So if there is not your computations would not be accurate to the extent of the laid down cost of Cutbank crude in Regina?

A If.

Q Yes, if. That is what I am saying? We will have to find out.

MR. FRAWLEY: There is a statement, Mr. Plotkins which has been sent up, that the Montana pipe line, connecting with the Imperial pipe line from Cutbank is still intact.

MR. PLOTKINS: That is correct, but it has been sold to a private company with instructions, or at least one of the conditions of the sale is to

immediately tear it up.

THE CHAIRMAN: Well that is a matter of being established.

MR. PLOTKINS: It is not now available to the Imperial Oil.

THE CHAIRMAN: If you can provide such information it would be of interest, Mr. Plotkins, by someone who can swear to it.

MR. PLOTKINS: Would a letter from the parties that purchased, offering to negotiate for certain matters in connection with this property be evidence?

THE CHAIRMAN: I suggest if you have that information you discuss it with Commission Counsel.

MR. PLOTKINS: All right.

Q So that Mr. McGrath, irrespective of any price changes in the refined markets, these computations would stand?

A Yes, this is the cost of raw material.

Q Even if the price of gasoline went up or down in Regina or Calgary or Winnipeg, it would not affect....

A This is the cost of raw material and it has no effect.

Q I just want to establish that plainly so there is no dispute about it later on. Am I right in saying you made the statement that the Cutbank field was pro-rated to 25%?

A That is my understanding.

Q That is your information?

A Yes.

Q Where did you get that information?

A I heard that in our offices in Toronto. That is what I

was told.

Q You did not consult Mr. Naylor or anyone in your Company that would be in a position to give you accurate information?

A Personally I did not consult Mr. Naylor, no.

Q Or no one in your department assisting you consulted Mr. Naylor?

A No.

Q So as to establish the true facts?

A We were told by Mr. McCloskey that that was so.

Q Mr. who?

A Mr. McCloskey.

Q You have no knowledge of the internal conditions of the Cutbank field?

A No, I have not.

Q So that we are not in a position to intelligently discuss, or at least I am not in a position to intelligently question you as to the value of your statement as to what you can do and what you cannot do in the Cutbank field, as it relates to competing with Turner Valley.

A Well I said that was the information our Company.....

Q You have taken into consideration only the posted field price in your computations?

A Of Illinois crude?

Q No, all crudes?

A Illinois crude. That is what we pay for the crude.

Q Similarly in Turner Valley is what you pay. I mean the posted price for Turner Valley crude is what you are paying?

A We are working out here the value of Turner Valley crude. We are not talking about the posted price at all. It is the value. It is working back to establish the value in the field for the three areas involved.

Q And this value has no relation to the cost of production either in the Illinois field or in the Turner Valley field?

A No. There is no consideration taken of production.

Q So that the crude must find its market, according to you on the basis of competitive values?

A I would imagine so.

Q And cost does not enter into it so far as these computations?

A Cost of production does not enter into these computations.

Q Or the posting of the field price?

A In Turner Valley?

Q In Turner Valley or anywhere else?

A In Illinois it is what we pay for it.

Q However, I am asking you......

A Oh, I see, in establishing the posted price. I do not know how that is established.

Q Have you anything to do with the establishing or determining of the posted field price, with your price that the Imperial will post in Turner Valley?

A I have made calculations along these lines before, Yes.

Q And when was the last time you made calculations?

A January 6th.

Q January 6th, 1938?

A Yes.

Q That would be after this price was posted, the last

price change. This was posted January 5th?

A That is the time. Yes, that is the time.

Q So that you helped, or at least you were instrumental....

A No, I was not instrumental. I worked on part of the problem.

Q What part did you play?

A In the gathering of the figures together. I did not decide the price is $1.30. That is just a matter of.....

(At this stage the Hearing was adjourned until 2 P.M.)

....

THE CHAIRMAN: Any more questions?

MR. PLOTKINS: Yes my Lord.

(Exmaination of Mr. McGrath continued by Mr. Plotkins)

Q We were considering the making up of the pipeline price of January 5th, 1938 and you told us that you had something to do with building up the information that caused the company to conclude that that was the price that was necessary to post, that it was advisable to post in Turner Valley so as to meet the competitive situation.

A I helped to gather that information.

Q What did your help consist of?

A Oh building up some of the data, a comparison of the use of crude and that sort of thing.

Q And you were compelled by circumstances to weigh the competitive angle of Cutbank crude?

A Yes.

Q And you have no information at this time to give us how much weight you did give to this Cutbank crude situation?

A Personally you mean.

Q I mean in your computation at the time you gave a factor to Cutbank crude in the weighing of all the factors?

A Yes.

Q That militated against certain prices in the Valley?

A I have not the details.

Q But that was one factor and you would take that into consideration?

(examination of ... continued by ...)

Q ... of the ...

Q ... compelled by circumstances ...

Q ... at the time ...

... in the ... of ... the

Q ... certain prices ...

Q ... you wouldn't ...

A I did part of the work, yes.

Q Was there any other crude field or crude supplies that you took into consideration, such as Wyoming?

A No I do not bebieve so.

Q You do not recall?

A Cutbank crude displaced Wyoming crude.

Q So at that time there was no other factor that you were to give weight to outside of Cutbank crude in arriving at the value for Turner Valley crude?

A And Mid-Continent crude for the East.

Q And Mid-Continent crude for?

A The East.

Q For the Manitoba area?

A Yes.

Q So that it is your contention that the price as posted now was arrived at on the basis of the different existing prices and conditions?

A Thatiis right.

Q On Cutbank, and in the Mid-Continent field?

A That is right.

Q And no other factors were taken into consideration so far as your computations were concerned?

A That is right.

Q But does that necessarily follow, that the company would act only on your compuations and would take no other factors into consideration?

A Oh no, I do not know, I did not post the price.

Q You are not in a position to tell us if there is any difference between what you felt by your calculations the price should be and what the actual price posted was, or what the actual price was which was posted?

A I do not follow that.

Q You do not follow that?

A No.

Q Well you were not in a position to tell us whether the price that is posted, that was posted in fact on January 5th, was the price that you valued Turner Valley crude at in your calculations, the same as you made them now?

A The statements which were prepared in our department showed that Turner Valley crude was worth $1.30 per barrel.

Q That is the figures which you concluded at?

A That is right, in our department.

Q That is your estimate, your computations at that time?

A The computations in our department, sir.

Q At that time?

A Yes.

Q Were the same as the scale of prices which were posted by Imperial Oil Limited in Turner Valley for Turner Valley crude?

A That is right.

Q So that so far as you know there were no other factors considered, no other competitive factors?

A Not to my knowledge.

Q Not to your knowledge?

A No.

Q Would you have any knowledge of them?

A Well I do not know, I do not know what factors you mean.

Q Well assuming that the Texas Company for instance has become a factor in the marketing of refined products in

position ... as well as ... planted, that was located in fact ... you valued Turner Valley ... Valley area as in your calculations, the same ...

... Turner Valley crude ... worth ...

... the figures ... your ... in our department.

... estimate ... company ... at that time ...

At that time ...

... by Imperial Oil Limited ... Turner Valley crude ...

... is right.

... you know ...

... your knowledge of them?

... I do not know ...

Western Canada and their crude does not come from Turner Valley, their methods of operation are different and your company in order to weigh the effect of their competition and reflect it in the price of Turner Valley crude would have to take that into consideration?

A Well I do not know, I do not know.

Q That is not in your department?

A No, that is not in my department.

Q So you will agree then that there are other factors beyond your department and beyond the computations that may affect the price of Turner Valley crude?

A Not to my knowledge, I do not know of any factors.

Q Absolutely none to your knowledge?

A No, none to my knowledge.

Q Have you taken into consideration in your computations in Turner Valley the possibility of sufficient crude being produced by independent producers and not sold to the Imperial Oil?

A This is the Imperial's picture.

Q I know but in considering, in building up your computations you would necessarily, of necessity, have to consider the possibility of crude moving below the field price?

A That was not considered, no, my calculations are based on replacement value of these crudes; the values which we have shown in these Charts represent the replacement value of Turner Valley crude. We are buyers of crude, we are not producers of crude.

Q You are not a producer?

A The Imperial Oil is not a producer of crude.

Q What is the Royalite's function?

A I do not know. You will have to ask the Royalite that.

Q Coming back to your computations, these three Exhibits, you have taken into consideration a figure representing the difference in cost of leading one gas as against the other?

A That is right.

Q On what facts or what was the basis for those figures?

A Our experience in running Cutbank crude in comparison with running Turner Valley crude.

Q Are you then able to say that it is based on actual records?

A That is right.

Q Running the two crudes?

A That is right.

Q Well if I suggest to you that my information is that there is practically no difference in the leading of those two gasolines, would you be willing to substantiate your statement or your figuring in there, by actual records?

A I will substantiate my figures by having Mr. Cottle review them.

Q Review them, no, but there are operating records in existence at Calgary for leading both those gasolines?

A That is right.

Q And those would be the actual experience?

A That is right.

Q And they can be produced?

A That is right.

Q So as to substantiate your figures?

A Yes.

Q The same applies to fuel oil, as to the recovery of the amount of fuel oil, which is recovered from the two crudes?

A That is right.

Q There are records available?

A That is right.

Q And they should or they can be produced so as to verify your basis of computation?

A That is right.

Q Now in calculating the laid-down cost of a barrel of crude from Cutbank to Regina, what freight rate did you use?

A 70½ cents a barrel.

Q 70½ cents?

A That is right.

Q From where to where?

A From Cutbank Station I think.

Q From Cutbank station?

A To Regina.

Q Can you tell me what that is in cents per hundred pounds?

A No, I do not know the weight of the crude, the actual weight.

Q I will just figure it roughly and we will be able to go on from that.

Q MR. FRAWLEY: Did you say it was freight all the way from Cutbank station to Regina?

A I believe it is Cutbank station, Mr. Frawley.

Q MR. PLOTKINS: What did you say, Mr. McGrath?

A $70\frac{1}{2}$ cents a barrel.

Q Well now that rate or at least that cost, calculation, is based on a rate that is no longer a published rate, is that correct?

A I do not know. Our traffic department gave us that rate.

Q Did you investigate into it?

A No, I took the word of our traffic manager.

Q Well the rate in that computation is based on a rate of 26 cents a hundred from Cutbank to Regina and was a special rate given for, under certain conditions?

A Yes.

Q That rate has now been withdrawn?

A Yes.

Q And you have no information as to whether it can be re-established?

A All I can say is that our traffic manager gave me that rate as the rate applying.

Q If I were to inform you that the Great Northern has refused a similar rate to other companies since they have withdrawn this particular rate?

A Yes.

Q Would you say then that your computation would have to be revised on the basis of the new rate?

A No, no, I would, the traffic manager of our company no doubt took all things into consideration and he said that was the rate and that is what I have used.

Q That you have used?

A Yes.

Q But you are not prepared to substantiate it?

A I have the details to substantiate it, the traffic manager would substantiate that.

Q Well we cannot very well bring every official to find these things out and you have no papers, working papers which would give you the information on what it was based?

A No.

THE CHAIRMAN: He did not do the work so he would have no working papers. He said the traffic manager gave this to him and he accepted it and that is all.

MR. PLOTKINS: Yes.

Q MR. PLOTKINS: Unless you, I will put it this way, in order to check the accuracy of your calculations, especially as it relates to fuel oil recovery, it would be necessary to know the percentages or the amounts of the different products that you marketed, otherwise we would only be using assumptions; in other words if we want to check, if I want to check those calculations as to the amount of fuel oil that is recoverable from a barrel of Illinois crude or a barrel of Cutbank crude as against a barrel of Turner Valley crude, I am not in a position to do so until I have learned the amount of gasoline, kerosene, distillate, etc. which you are at present marketing from a given number of barrel of crude?

A Yes.

Q That is correct?

A Yes.

Q So because the amount of fuel oil will vary in proportion to the amount of by-products that you take off a given barrel---

A I explained to you this morning, Mr. Plotkins, that we are making the same barrels of products from a different number of barrels of crude.

Q I understand that, but what I am asking you, in order to check the accuracy, it is not a matter of opinion, it is a matter of what we actually do recover?

A Yes.

Q So as to verify your figures it would be necessary for you to give us the relative percentages of products that you actually do market or recover and market from a given number of barrels of crude, is that not correct?

A Yes, that would be correct.

Q So if you said to us out of 100 barrels I will market, we produce so many barrels of gasoline, so many barrels of kerosene, so many barrels of distillate, therefore in producing that we will have so much fuel oil left?

A Yes.

Q Otherwise we will have to take your word that that is the amount of fuel oil which is recovered from a given grade of crude, are you in a position to give us those figures in percentages?

MR. NOLAN: Well now, that raises a question, and a very serious question. It is a question of the yield that we are able to obtain.

MR. PLOTKINS: No, I do not want the yield, it has nothing to do with the yield. It is a question of what they market from a barrel of crude and that

figure in turn is forced on you by market requirements, is that not correct?

A Yes.

Q MR. PLOTKINS: It has nothing to do with the yield?

A Oh yes, you run your crude to meet that market.

Q True.

A That is right.

Q But it has nothing to do with the efficiency of a given system of refining as against another one, that is your experience that you are basing those calculations on at the present time?

A It is our experience.

Q It is your experience with the equipment which you now have?

A Yes.

Q It has nothing to do with someone elses?

A No, this is the Imperial.

Q So it is not disclosing any secret because these figures are available as a total from the different governments but it is not available in the form of what the actual experience of the Imperial Oil is in the Western Canadian market?

A Yes.

Q And that is why I am asking if that would be available so as to give us an opportunity to check these values that you have placed on a barrel of Turner Valley crude as against a barrel of some other crude?

MR. NOLAN: Well my instructions are that that is a question of yield. I do not know

enough ab ut it to speak with authority and if it is, we are not going to give them to Mr. Plotkins. We have agreed with my friend, Mr. Frawley, and Mr. Cottle, that the working papers behind the computations here and all of them are being placed at Mr. Cottle's disposal whenever he says the word and he will then be in a position to verify and check these mathematics. You must understand, Mr. Chairman, that there are weeks of calculations behind these figures. What has been attempted to be done here is to reduce this to a very simple picture, and perhaps it is not as simple as we thought it would be but behind that are working papers and a lot of them and I have agreed with Mr. Frawley that all of those papers should be turned over to Mr. Cottle for the purpose of his checking, for the purpose of his analysis and that is the understanding which is existing between us. Now this is yield we are talking about and I understand it is, and I do not propose to give those figures to any of my competitors in this business but I do propose they be made available to the accountant to this Commission so that he can then check and ascertain whether the background, the method, the background in the chart is right or is wrong.

MR. PLOTKINS: Mr. Chairman, may I say something in that respect. I would like to point out to Mr. Nolan that the Government of the Province of Alberta has a statute governing the oil business and

has in the past and at present compelled us to give them detailed reports and has checked our yield and I do not know whether they have similarly done, treated the Imperial, I would naturally assume that if we are forced to disclose, and by the way I do not see any secrets about it, the yield, I do not see where there is any private, any information of a private or competitive nature.

MR. FRAWLEY: Let me understand that now just so I will be clear, what branch of what department is it that checks the yields or the recoveries, Mr. Plotkins?

MR. PLOTKINS: We are forced under a statute to give every month---

MR. NOLAN: Under the Fuel Oil Tax Act.

MR. PLOTKINS: Under the Fuel Oil Tax Act, a detailed printed statement, I do not know what department handles it but a detailed printed statement as to the amount of crude we process, what the recoveries are, what we do with it because they are interested, and properly so under the present Tax Act, in knowing what disposition is made of the refined products that are taxable and under those circumstances I do not see where there is any secret and another thing--

THE CHAIRMAN: Whether or no, Mr. Plotkins, we need not spend all afternoon debating whether the evidence will be admissible or not because this witness cannot give it.

MR. PLOTKINS: Oh well he says he is using these factors and am I to understand---

THE CHAIRMAN: He got them from other people. It is just like the traffic manager, he got them from other,people who are not here.

MR. PLOTKINS: I see.

THE CHAIRMAN: That is the answer, is it not, Mr. McGrath?

A Yes.

Q THE CHAIRMAN: I do not think there is any doubt, Mr. Plotkins, I quite sympathise with your desire to make full inquiry, that is ours too, but there is no use pursuing it with a witness who has no personal knowledge because he, being on oath, he cannot say any more than "I do not know". "I acted upon what I believed to be accurate information furnished me by responsible heads of different departments in my company" and that is his whole story and we have to accept it while he is in the box because he does not know anything else.

Q MR. PLOTKINS: So that your calculations as represented on these three charts or statements are only correct to the extent that your information is correct?

A That is right.

Q THE CHAIRMAN: You have no persoanl knowledge of the situation in connection with the breaking up of a barrel of crude oil, have you, other than what is furnished to you?

A No, that is right.

MR. FRAWLEY: Of course we do not intend to go any furthe in that. I think in fairness I should

say that. Mr. McGrath, so far as Mr. Cottle is concerned, I just want to say that, when we ultimately come to the evidence more particularly relating to yields we do not want anybody other than Mr. McGrath, do we?

MR. COTTLE: No.

MR. FRAWLEY: I just want to make that clear.

THE CHAIRMAN: When we come to that we may.

MR. FRAWLEY: Oh yes, the Commission may want to bring other people in.

THE CHAIRMAN: But at this moment all I am saying is that instead of having a long argument about what Mr. McGrath should know, the fact is he only knows so much and you may as well forget the rest.

MR. PLOTKINS: I realize that.

(Go to Number 3794)

MR. PLOTKINS: That is all, thank you.

THE CHAIRMAN: Any questions?

MR. HARVIE: I have no questions.

THE CHAIRMAN: Do you wish to ask anything, Mr. Kolb, on behalf of the producers?

MR. KOLB: No, my Lord.

Q MR. FRAWLEY: Mr. McGrath, is casing head being sent to Regina right now?

A Yes.

Q How does it go down?

A Tank car.

Q By separate tank car?

A Yes.

Q Not with the crude?

A No, by separate tank car.

Q You ship cars of plant product or casing head down separately to Regina for its requirements?

A That is right.

Q Has it been moving continuously since Turner Valley went first to Regina?

A Not continuously, no. It moved last Winter and it started last Fall, again, and it has been moving right along.

Q There was a period when they did not move at all?

A Yes.

Q And then they brought it from where?

A They have not brought it from any place else.

Q There was a time when they did not use it, or do you mean that they had storage?

A They had storage. They took a great deal in in 1937 and it lasted them over into 1938, and we did not require any until the latter part of 1938.

Q They need it in their refining operation?

A Yes.

Q It has never gone down in the crude?

A No, it has not.

Q I mean in the calculations which you have made they have been based upon the movement of the refined product from Regina to serve the Manitoba area by tank car?

A That is right.

Q By railway tank car?

A That is right.

Q And the railway rates, the freight rate on refined products is a much higher rate than the rate on crude?

A That is right, sir.

Q In fact, do you know offhand how many times the crude rate it is?

A I think it is 100 to 40.

Q 100 to 40?

A Yes.

Q The freight on a tank car of crude over a given distance is, and the freight on a tank car of refined products for the same distance is as 40 is to 100?

A That is right. That is to the best of my knowledge.

Q What is that?

A That is what I understand.

Q By the way, your company is, I think, chiefly responsible for obtaining from the railway company the rate on crude moving from Calgary to Regina that was a very great reduction from what the rate had been up to that time. When the crude started to move in quantities from Calgary to Regina your company was largely instrumental in getting from the railway companies a rate of 19 cents a hundred-weight?

A I presume that is so. I was not in on any of these conferences and I do not know.

Q That is outside your field?

A Yes.

Q But it is a fact that your company and the British American were largely responsible in getting that rate. Now, do you know whether your company has done anything at all towards trying to get from the railway companies a rate on refined products moving out of the Regina refinery eastward, to get a reduced rate?

A No, I cannot say. Our traffic manager would have to answer that.

Q My information is, and it is only second or third hand, but my information is that your company has not made any attempt to get a reduction from the railway companies of the rate on refined products moving eastward from Regina. Now, you agree with me that a reduction in the freight rate on the refined products moving eastward from Regina would solve the whole problem, would it not?

A It would help the problem, yes.

Q If it is that high rate - and I think it is only fair to use the word "high" - certainly everybody in the oil industry thinks it is a high rate on gasoline moving by tank car?

A Yes.

Q That, perhaps, is why so much is moving by tank truck on the highways, is it not?

A I presume so, I do not know.

Q I am just trying to canvass all of the situations which may be brought to bear upon the exclusion of the Illinois crude. One of them would be the rate on refined products which would move the Regina-made gasoline into the Manitoba area at less cost?

[illegible]

A Unless the rates were reduced East and West, in the same proportion. That is, the rate from Sarnia and Regina.

Q Now, I thought you might mention that. In other words, if the railway companies in addition to granting, or at the same time as they granted a rate on the refined products moving out of Moose Jaw and Regina refineries, moving eastward to the Winnipeg area, if they at the same time granted a rate moving by rail from Fort William westward into the Manitoba area, if they did that, one might counter-balance the other and we would be where we started?

A It is possible.

Q But surely a rate given on gasoline manufactured from Alberta crude at Regina would be a rate given for the purpose of developing the Turner Valley crude, would it not and help it find a market?

A Well, I do not know, I presume it would be.

Q It would be with that object in view?

A Yes.

Q On the other hand, the other rate would be for the purpose of finding a market for Illinois oil in western Canada which you would not expect the Canadian railways should pay much attention to, should they?

A I do not suppose they should, no.

THE CHAIRMAN: They, too, may be concerned with what is economically sound. I mean the railways.

MR. FRAWLEY: Yes. I am simply asking the witness to agree with something which, as the Chairman has said about other matters, we may deal with in argument. I am suggesting there should be one good sound reason why the Alberta petroleum industry might go to the railways and get a rate moving from Regina to Winnipeg to help their industry, and at the same time object to the Illinois crude

producing and marketing its products in western Canada in competition with the other. Well, that is all.

THE CHAIRMAN: Thank you, Mr. McGrath.

(At this stage there was an adjournment of five minutes.)

....

T. E. BURNS, recalled:

Q MR. FRAWLEY: Mr. Burns, we called you for two or three things. Did you bring the Royalite budget? I think we asked Mr. Coultis for the entire Royalite Company budget for some years. I do not just know how many years we asked?

A Yes, I have copies of it here. 1937, 1938 and 1939, I believe it is.

Q You are producing the Royalite Oil Company's details of physical capital budget for the year 1937 for all departments?

A All departments.

Q You have an original and several copies?

A Several copies, yes.

(DOCUMENT IN QUESTION IS NOW MARKED EXHIBIT "152".)

Q You now produce the same thing, details of physical capital budget, Royalite Oil Company Limited for the year 1938?

A That is correct.

(DOCUMENT IN QUESTION IS NOW MARKED EXHIBIT "153".)

Q And you now produce the same thing for 1939, details of physical capital budget for the year 1939 for the Royalite Oil Company?

A Yes.

(DOCUMENT IN QUESTION IS NOW MARKED EXHIBIT "154".)

Q Mr. Burns, Mr. Morrison is laid up to-day, and if you do not mind I will just defer questioning you about the budget until he has a chance to look at it. He might want to ask you some questions on that or might suggest something?

A Yes.

Q Another thing I wanted to get from you was the financial set-up of the Royalite Oil Company Limited. Have you got, either in memorandum form or can you give us verbally for the record what is the authorized capital, the issued capital and so on of the Royalite Oil Company. Where it is incorporated and where its head office is and a complete and definite list of its officers and directors. You might put it on the record and file either now or have Mr. Nolan file a memorandum covering it probably?

A Yes, I have brought the information here intending to give it verbally but I can later give a memorandum of it at any time.

Q Did you propose to file what you have in your hand?

A No.

Q That is a very satisfactory-looking cover and title "Royalite Oil Company Limited History and Development." I just, without looking at it at all, I think, perhaps, the Commission would be interested in having that. I suppose you would be glad to file it?

A Yes, I can see no objection to filing it. It is not a complete history. It is what I have worked on. It does, however, contain the details of the capital structure of the company.

Q And unless u you have something to add to that that might be filed. Do you have in mind adding something to it now? If so, just proceed to do it, wherein it is incomplete.

Does it indicate the year in which it was incorporated and under what Statute?

A Yes.

Q And that sort of thing?

A Yes.

Q That is all in there?

A Yes. I may say this is a memorandum which I have prepared personally. It is not an official company document.

Q Well, if you prepared it, Mr. Burns, I, for one, feel satisfied it would be thoroughly done and I am quite prepared to offer it to the Commission?

A I am so prepared. I have only one copy.

Q Have you any other copies at the office, or would it have to be copied?

A I am afraid it would have to be copied.

MR. FRAWLEY: I offer this, Mr. Chairman.

(DOCUMENT IN QUESTION IS NOW MARKED EXHIBIT "155".)

THE CHAIRMAN: Just what is it?

MR. FRAWLEY: It is called a factual memorandum concerning the history of incorporation and development of the Royalite Oil Company Limited, 13th December, 1938. I am reading just the first paragraph:

"Incorporation. Royalite Oil Company Limited was incorporated by letters patent issued at Ottawa by the Secretary of State of Canada on 18th January, 1921. The purpose for which the company was formed was to acquire all of the assets of Calgary Petroleum Products Limited, which had been formed in 1912, and to continue the development which had been commenced by that company in the Turner Valley of Alberta. It obtained its

corporate name from the brand name of the coal-oil or kerosene, which Imperial Oil Limited markets throughout the Dominion."

And then there is a sub-title "Earlier Development", and another sub-title "Officers and Directors".

THE CHAIRMAN: Is it a Dominion company?

MR. FRAWLEY: A Dominion company. It so states. There is an historical list of Presidents, Vice-Presidents and Directors. The next sub-title is "Capital". Then Subsidiary Companies; Subsidiaries to Subsidiaries; Former Subsidiaries; Petreoleum and Natural Gas Lands Leased from the Crown. That would be lands leased from the Crown?

A Correct.

Q "Leases from Canadian Pacific railway; Leases from Security Assets Limited; Leases from Calgary and Edmonton Corporation Limited; Lands Held in Fee Simple. Total leased acreage, 9,070.13. Natural Gas Purifying Plant; Pay-rolls; Earnings; Dividends. A fairly comprehensive document.

THE CHAIRMAN: Yes.

MR. FRAWLEY: How it should be put into the record I do not know. I am wondering whether we should take the time to read it now.

THE CHAIRMAN: No, I do not think so.

MR. FRAWLEY: We will have some copies made of it?

THE CHAIRMAN: Yes.

Q MR. FRAWLEY: Now, Mr. Burns, can you tell me what the drilling programme.....

THE CHAIRMAN: Mr. Frawley, we are to get the same thing from the Imperial, you know.

MR. FRAWLEY: Not from Mr. Burns. We certainly are, but if you wanted it during this phase of the Enquiry we would have to get that from somebody else. Mr. Nolan would have to undertake to get that for us through some other witness.

Q You would not be prepared to make a statement similar to that or in any way dealing with the set-up of the Imperial Oil Limited?

A No, I could not do that.

MR. NOLAN: There are published books that deal with the capitalization, share capital, issued shares, the head office of the company and the directors. That is all published in these hand-books and I will make it my business to look for one and bring it here.

THE CHAIRMAN: Yes, that is all.

Q MR. FRAWLEY: Mr. Burns, can you tell me what the drilling programme of your company is for 1939. Perhaps it is in this Exhibit "154", is it?

A Yes.

Q Yes?

A The amount budgetted to drill the required wells in Turner Valley is $1,066,700.00.

Q As appears on page 1 of Exhibit "154", the budget for 1939. Is that the only item dealing with my question at all?

A That is all. I should say too I believe at this stage that these budgets are flexible to the extent that we prepare them sometime in the Fall of each year for the coming year. This one, I believe, was prepared in September of 1938.

Q Yes?

[illegible]

A And everything that is in it is contingent upon development taking place as we contemplated it would take place at that time.

Q You had certain developments in contemplation when this budget was prepared?

A That is correct.

Q Which you say with respect to the 1939 budget was last.....

A September.

Q September, and at that time you foresaw that you would expend $1,066,700.00 on drilling of wells in Turner Valley?

A Yes, sir.

Q How many wells were there in contemplation when making up this amount?

A Roughly elevon or twelve wells.

Q Now, in addition to that are there not some other items related to - other items in the budget related to the drilling of these eleven or twelve wells?

A Yes, in the next item, producing wells equipment.

Q $196,400.00, it was contemplated to expend under the heading of Producing Wells Equipment?

A Yes.

Q Separators, tanks, boilers, gas-lift , intermitters, tubing and that sort of thing?

A That is correct.

Q And still on the first page the water system. Would that be directly related to the Drilling of Wells?

A No, not entirely.

Q That is one of your service units?

A That is correct.

Q And then Fuel Lines, at the bottom of page 2, that is also

part of your service units?

A That is right.

Q Now, I want to call attention to something right now so that it won't be confusing. You have included Mr. Coultis' budget in these Exhibits, haven't you?

A That is correct.

Q That is your complete budget. So if that will just be noted that the last four pages of these budgets, which Mr. Burns is now filing, are budgets already in as Exhibits. And the grand total of the money which the Royalite Company contemplates expending in the Turner Valley in 1939 is $1,832,300.00?

A On capital development.

Q On capital development?

A Yes.

THE CHAIRMAN: Where do you find that figure?

MR. FRAWLEY: The very last figure on Exhibit "154".

THE CHAIRMAN: Oh, yes, $1,832,300.00.

MR. FRAWLEY: Yes. Mr. Coultis will file the pipeline budget, will he, for 1935, 1936, 1937, and 1938?

MR. NOLAN: The pipeline budget is part of this larger budget.

MR. FRAWLEY: Yes, I was thinking of that as I asked the question.

A I understood I was requested to prepare and file a complete budget, but if I am wrong about that Mr. Coultis can......

Q No, that is quite all right. It is a question of how far back you went, Mr. Burns. You only went back to 1937?

A That is right.

Q 1937, 1938 and 1939. I do not recall whether Mr. Coultis

was asked to go back further than that.

THE CHAIRMAN: Yes, 1936.

MR. NOLAN: There is no point raised, because I have asked Mr. Coultis to come before the Commission with the pipeline budget from 1936 on. But I am pointing out to the Commission there is duplication in the sense they are in there for the years 1937, '38 and '39.

MR. FRAWLEY: Mr. Coultis will come and put them in as from 1936 on.

MR. NOLAN: As a spearate document because we thought it might be more convenient to the Commission to have the pipeline separate from the others.

THE CHAIRMAN: In addition he was to make some check in connection with the 1939.

MR. NOLAN: He is going to take 1939 and indicate on that document, which has already been marked as an Exhibit, what is contingent and what is imperative in the way of expenditure this year.

THE CHAIRMAN: That is right.

Q MR. FRAWLEY: Mr. Burns, not to be facetious in any way at all, but the fact that you are going to spend $1,066.000.00 in the Valley drilling ten or eleven wells, would indicate that the snare of Illinois crude had not permeated through to the drilling department of the Royalite Oil Company, whatever it may be doing to the refinery at Sarnia?

A Perhaps not in September of 1938.

Q But this is the only budget that you have prepared. There has been no revision to your budget?

A There has been no revision of it.

Q Or I take it you would file it. This is the budget which this Commission is entitled.....well, it is the only

budget that you are placing before them for 1939?

A That is correct.

Q MR. COMMISSIONER LIPSETT: Has that been approved, Mr. Burns, or how is it dealt with?

A We have not yet held a meeting of the Board of Directors of the Royalite Company to approve it but it has had Mr. McLeod's approval.

Q Does it require anything further than the approval of the local Board?

A No. It has not been customary to give anything.....

Q It has not been customary to refer it to any other place?

A Oh, yes, it is always referred to Toronto.

Q Up to date there is nothing to indicate that it is not going through, from Toronto or anywhere?

A Up to date there is nothing to indicate that that money will not be spent.

Q THE CHAIRMAN: When you say Toronto, you mean the Imperial Oil Limited?

A Yes, the Imperial Oil Limited in Toronto.

Q MR. FRAWLEY: So I iwill understand that. When you desire to call a meeting of the Board of Directors you call that meeting in Calgary?

A In Calgary.

Q The majority of the Board of Directors reside in Calgary?

A Reside in Calgary.

Q One of the members of the Board, the Chairman of the Board is Mr. George H. Smith, is he?

A Mr. Gilliard Harrison Smith.

Q Mr. Gilliard Harrison Smith?

A Who lives in Toronto.

Q Yes, and he is what in the Royalite Company?

A He is the Chairman of the Board.

Q And you meet in Calgary without Mr. Smith being here?

A That is correct.

Q And all of the other members of the Board are in Calgary?

A All the others are resident here.

Q This historical list here does not quickly indicate who are the directors at the moment. In any event, what the Board of Directors in Calgary resolve to do is then submitted and passed upon by the parent company, the Imperial Oil Limited in Toronto?

A I would not say it was then submitted. It may have been discussed previously.

Q Well, either before or after, the resolution of the Royalite Board in Calgary, the matter receives the approval of the parent company in Toronto?

A Not in all cases.

Q But in major matters?

A In major expenditures, yes.

Q Now, Mr. Burns, your company has upon occasion, the Royalite Oil Company, drilled wells for other companies?

A Drilled wells for other companies, yes.

Q Other companies outside of the Imperial organization altogether?

A That is correct.

Q And on a basis of sending in a bill when it is all finished with the work which your company did for the outside company?

A Well, generally it is agreed to drill and take the money out of production.

[illegible]

[illegible] of the other members of the [illegible]
others are [illegible]

other [illegible] here does not [illegible]
[illegible] as of the moment. In any event, that
[illegible] in Cal[illegible]
[illegible] upon [illegible] the pr[illegible]

[illegible] not only [illegible] It may have be[illegible]
[illegible] previously.
[illegible] either before or after, the [illegible]dition of the [illegible]
[illegible] in Calgary, the matter receives the approval of the [illegible]
[illegible] in Toronto [illegible]

[illegible] major [illegible]
[illegible] expenditure, [illegible]

[illegible] country [illegible]

[illegible] for either [illegible]

[illegible] of the [illegible] organization.

[illegible]

Q Yes.

A There may be some cases where we have rendered invoices for drilling done.

Q I do not want to make any point of that, it was rather the bad way of putting my question to you, you have an account against a company and you get it either by rendering them an invoice or paying yourself through the pipeline out of production?

A Yes.

Q And in the amount, I mean in the total of your charges which you make against this company there is as I understand, there appears a charge made for the administration and engineering expenses involved in carrying out the work for the company?

A That is correct in some instances, not in all cases.

Q But in some instances that happens?

A Yes.

Q Then another thing about your drilling of wells department, it is in a position to earn revenue for the company, is it not, by this outside drilling?

A It is in a position to earn revenue.

Q Yes, and it either earns, it either makes a profit by charging more than the actual outlay to your company or it makes a loss if by chance it does not charge as much as the actual outlay by your company?

A It would certainly make a loss if no production was encountered.

Q Well you would have an unpaid bill, that is all, is it not?

A That would be a loss.

Q That is true, it would be just an accounts receivable?

A Receivable from whom?

Q You would have a debtor and you would be the creditor?

A No, that is not entirely correct.

THE CHAIRMAN: No, not if they agreed to take a percentage of production.

Q MR. FRAWLEY: You agree to pay yourselves out of production?

A Yes, we agreed to take payment out of production.

Q And to take no payment if there is no production?

A In some cases.

Q Then it is some---

THE CHAIRMAN: Gambling on production.

Q MR. FRAWLEY: A sort of contingency, you do what lawyers are not allowed to do. Now you pay a corporation tax every year to the Government of the Province of Alberta?

A That is correct.

Q And there is an item which appears in one of these many accounts which, unless you make me, I would not want to get it at the moment, have you prepared, you have prepared something that you have with you to show how much taxation you pay, I mean a statement?

A No.

Q You are just going to refer to the record of the Corporations Taxation Act?

A Yes.

Q And there is a special section there for your company is there not?

A That is quite correct.

Q Your company had the dignity and the honour of having been selected to have a special section passed, because there was nothing else that seemed to fit the situation and Section 17A was passed, which is applicable to your company only?

THE CHAIRMAN: 17A of what?

MR. FRAWLEY: Of the Corporations Taxation Act.

A With regard to your statement as to there being nothing else to fit the company, that is perhaps your own idea. We would be quite prepared to pay the regular tax on capital the same as any other producing company operating in Turner Valley.

Q Yes but what---

THE CHAIRMAN: Is it a super-tax?

MR. FRAWLEY: Something like that.

MR. NOLAN: It is a special section of the Act designed for the special purpose of taxing this particular company in the amount of 2½ per cent.

Q MR. FRAWLEY: 2½ per cent?

A 2½ per cent of the taxable income of the company as determined.

Q You pay to the Corporations Taxation Branch 2½ per cent of what you pay to the superintendent of Income Taxes, 2½ per cent of the amount of the assessment made by the Income Tax Department?

A That is correct.

Q With no offset one against the other?

A With no offset one against the other?

Q THE CHAIRMAN: Does that cover the Royalite?

A The Royalite Oil Company Limited, a special clause is contained in Section 17A of this office consolidation of the Corporations Taxation Act which I have here.

Q THE CHAIRMAN; And I suppose it has been taken into account by the various accountants who have dealt with it?

MR. FRAWLEY: Oh yes.

WITNESS: Yes.

MR. FRAWLEY: My friend makes it sound like a lot of money but you can hardly see it in a barrel.

MR. NOLAN; You can say $35,000, if my memory serves me right.

MR. FRAWLEY: No, no, about 20 I think.

MR. NOLAN; I would like to be sure about that.

MR. FRAWLEY: That is not all you pay, you pay an Income Tax too, if you want to find that.

MR. NOLAN: Perhaps this Commission would like to know what this Company pays to the Provincial Government every year.

MR. FRAWLEY: I think it is somewhere in these many reports.

MR. NOLAN: I think it is but perhaps for the purposes of clarity we might put it on one sheet of paper.

MR. FRAWLEY: For emphasis you mean, and you might give it greater emphasis if you put it on two pieces of paper, and make it look twice as big. Here it is, it is in Exhibit "107", which Mr. Taylor prepared,

the break-down of the charge entitled " Administration 1938, nine months, Taxes, Corporation Tax, $23,005.45" and then that is extended $23,175.60, what accounts for the small difference?

A I presume that is the filing fee or perhaps the registration under the company's Act.

Q Oh yes, would the other kinds of taxes, take your Income Tax for instance, would that be there or is that all in the 23 thousand?

A The Income Tax would not be here because it was a calculation which had to be made subsequently to this.

Q That is right, subsequently to this, we have it here, but not on this sheet?

A That is right.

THE CHAIRMAN: I wanted to know if the accountants had it in mind.

MR. FRAWLEY: Yes.

Q THE CHAIRMAN: Is that a tax of all the departments, including the drilling of wells?

A On the entire taxable income of the company as determined by the Provincial---

Q MR. FRAWLEY: Superintendent of Income Tax?

A Superintendent of Income Tax.

Q Yes, the Superintendent of Income Tax makes up his assessment and then he proceeds to levy his tax and the Corporation's Taxation Branch, which is a quite different department, takes that assessment and makes a levy under this section, a levy of 2½ per cent.

MAJOR LIPSETT: Is that over and above the ordinary Income Tax?

MR. FRAWLEY: Yes, quite, and without any offset.

Q MR. FRAWLEY: I think those are all the things which were left over, Mr. Burns, so far as I can recall, subject to your returning if you will be good enough in case Mr. Morrison suggests some other questions arising out of this.

A Yes, very good.

MAJOR LIPSETT: What is the date, Mr. Frawley, of that Corporations Taxation Act, I got the section but I did not get the date.

MR. FRAWLEY: I will file, I will get some of these office consolidations. Section 17A was put in in 1937 by Chapter 57. This only began, it should be pointed out, in the year 1937, this particular Corporations Act. Before that presumably they paid under another section of the Act, undor Section 8 in fact.

MAJOR LIPSETT: You mean before 1937 there was this special tax charged on the companies.

MR. FRAWLEY: Before 1937 there was no special taxes, they were not put into a special section by themselves.

MAJOR LIPSETT: Before that they just paid on profits, the same as any other.

MR. FRAWLEY: No, this is the Corporations Taxation Act, nothing to do with the Income Tax Act. The only reason the Income Tax assessment is mentioned here is purely as a yard stick. They always paid the Corporation Tax I think under Section 8, which deals with gas companies.

MAJOR LIPSETT: How does this exactly, Mr. Frawley, of course I am not acquainted with the statute, how does this $2\frac{1}{2}$ per cent compare, I mean with other Corporations in this Province, is that in addition to what any other corporation would pay, this $2\frac{1}{2}$ per cent?

MR. FRAWLEY: No. That is the only section under which this company is taxed as a corporation. Other companies are taxed under other appropriate sections of the Corporation's Taxation Act. This section, this company pays just one tax under the Corporations Taxation Act, which is under 17(A) and when I say it is special for them, they are not named for the Imperial Oil Company but a definition has been worked out which covers them.

MAJOR LIPSETT: Would the ordinary Corporations Taxation Act, is that a tax on profits or on capital?

MR. FRAWLEY: On Capital generally speaking, on capital.

MAJOR LIPSETT: And in this particular case it is a tax on income.

MR. FRAWLEY: It is really another Income Tax, that is really what it has boiled down to. They have just departed from this, there are many exceptions, that is a basic tax but there are many exceptions, for instance the telephone company pay a tax of 2 per cent of its gross revenue, without any deductions whatever, earned, derived, accrued or received from any source whatsoever which may arise from business transacted in the Province. Gas companies pay a tax of 1/2 of 1 cent for every thousand feet of gas flowing, drawn or pumped from or produced by a well owned, leased, occupied or operated

by such companies. Now you might suggest the Royalite Oil Company might be taxed under that but I think Mr. Burns will tell us that they are certainly not asked to pay any taxes under that section now.

MR. BURNS: We previously paid under that section.

MR. FRAWLEY: But now they pay under 17A.

MAJOR LIPSETT: That was on the gross revenue.

MR. FRAWLEY: No, this one, this last one I gave you is on each thousand feet of gas, so many cents on every thousand feet of gas flowing, drawn or pumped or produced by the well.

MAJOR LIPSETT: That is of production?

MR. FRAWLEY: In other words production.

MAJOR LIPSETT: In this particular section 17(A) that is on net profits.

MR. FRAWLEY: 17(A) and I will read it to you, it is:

> " Any company which operates a plant for the recovery of naphtha or liquifiable hydro-carbons from natural gas by means of absorption or any other means and the extraction from such gas of hydro-sulphide, and sells or otherwise disposes of such treated natural gas to any other company or person who uses the same for the purpose of generating heat, light or power, or resells the same for such purpose shall, in the year 1937, and in every subsequent year, pay a tax of two and one-half per centum on the amount in respect of which the company is liable for the payment of income tax in the year 1937, and in

"each subsequent year respectively, under the provisions of the Income Tax Act, or the sum of Ten Thousand Dollars, whichever amount is the greater, such tax being in addition to the tax payable under the last mentioned Act".

And then sub-section two:

" Section 8 of this Act shall not apply to a company to which this section is applicable".

So that is the Royalite's section. I will call Mr. Tanner.

EDWARD HAROLD TANNER, having been first duly sworn, examined by Mr. Frawley said:

Q Mr. Tanner, you live and carry on business in the City of Calgary?
A Yes.
Q And what is your business?
A Bond business, Tanner and Company.
Q How long have you been engaged in that business?
A In the bond business.
Q Yes.
A This last firm.
Q No, I mean in that business?
A Since 1921.
Q In what places have you carried on?
A Here and in Toronto.
Q Calgary and in Toronto?
A And in Regina.
Q And what is the nature of the business, just tell us

something about it.

A Oh dealing in Government, Municipal and Corporation bonds principally.

Q When you say in dealing with them?

A Buying and selling Government and Municipal and Corporation bonds and prior to that time, during, prior to the last three or four years the largest percentage of the business was purchasing and distributing Government and Municipal bonds.

Q Is your bsuiness, has your experience been confined largely to the bond section of this securities' business?

A Yes entirely.

Q And have you some knowledge of what the rates, effective rates of interest have been?

A Yes.

Q On securities in Canada for the past decade?

A Yes.

Q Now we are engaged here, Mr. Tanner, in arriving at a rate which will be charged by the Royalite Oil Company for the carriage of crude oil through its line from Turner Valley to Calgary and one of the elements which enters into the Commissions' calculations is the fair and proper rate of return upon the money which the Royalite Oil Company has invested in that enterprise. Now having in mind that as a basic fact and having in mind that the rate is being set either by this Commission or upon the recommendation of this Commission, either by a regulatory body or in some such fashion, and assuming that from this

time on the rate which this company will be allowed to charge will be subject to the jurisdiction of a regulatory body, will you tell me what in your opinion would be a fair rate of return for this Commission to take into its calculation, to allow this company upon its investment in this particular enterprise under those particular circumstances?

MR. NOLAN: Well I am going to object to that because this witness has not been qualified to give an opinion upon that point.

MR. FRAWLEY: Well we will see what knowledge he has. Have you had to, have you bought and sold the securities of utility corporations?

A Oh yes.

Q Public Utility Corporations?

A Yes.

Q Have you had occasion to examine into the capital structure and earnings of utility corporations?

A Yes.

Q Have you had to discuss with your clients the advisability or inadvisability of this kind of utility security as against that kind of utility security?

A Yes. When you say "this kind", you are not referring to this particular one?

Q No, in matters of that kind?

A Yes.

Q Over a period of how many years?

A Oh over a period of the last eighteen years.

Q You make it your business to know what money is worth under, for a particular kind of investment from time to time?

A Yes. Generally speaking there are various rates of securities applicable to various types of securities, I mean various rates of interest applicable to various types of securities.

Q Yes, it has been your business to study and advise clients in that very matter?

A Yes.

MR. FRAWLEY: I think perhaps I will leave it to my friend whether or not, my submission is Mr. Chariman that that qualifies the witness to answer the kind of question I have asked him.

Q MR. NOLAN: Well I would just ask you, Mr. Tanner, if I may please.

A Yes.

Q Have you had any experience in connection with bond issues pertaining to pipeline companies?

A No.

Q And that is not one of the various types of securities upon which you have advised or have been consulted as to the rate of interest applicable?

A No, there are no pipeline securities in the hands of the public in Canada.

Q MR. FRAWLEY: There are not in Canada but have you had to do with the buying and selling of the securities of natural gas companies, part of the business of which is the transportation of natural gas by pipoline?

A Oh yes.

THE CHAIRMAN: All right, go ahead. We will hear it.

Q MR. FRAWLEY: Mr. Tanner, then you have heard

my question?

A Yes, if you will go back over that question to see if I understand it properly.

Q Yes.

A You are asking me what rate of return a company should be allowed where the security is protected by Government jurisdiction over the earnings of that company.

Q When you speak about Government jurisdiction, I used the expression "the jurisdiction of a regulatory body"?

A Yes.

Q Yes.

A What I am trying to get at, Mr. Frawley, is this, every security, there are so many different rates of interest and so many different features of securities that you cannot deal with the interest return without referring to the security.

Q Quite.

A Now coming back to this pipeline question of yours, can I assume that it has been established, that there is a constant source of supply, a market for the product.

Q Yes.

A In other words there should be a stability of earnings.

Q Yes, for the purposes of your calculation, Mr. Tanner, and I should have put these to you, you can assume?

A That there is a stability of earnings.

Q Yes, you may assume that an estimate has been taken into the finding for the life of the Turner Valley field which this pipeline serves, in other words you say "stability of supply"?

A Yes. You don't mind if I ask a lot of these questions?

Q No.

A And proper provision has been made for the retirement of the capital invested in that asset, you do not want me to deal with that at all?

Q No, proper provision in the rate has been charged for amortization?

A Yes.

Q Yes, you can assume that.

A So that the investor will have protection of his capital as well as---

Q That is your conclusion?

A Yes.

Q As an investment broker?

A Yes.

MR. NOLAN: No, it is not, that is what he says.

THE CHAIRMAN: He is asking you.

WITNESS: I am sorry, I do not want to complicate the thing but you understand the position I am in.

Q MR. FRAWLEY: No, Mr. Nolan does not mind that at all. Now you are asking me, you want me to supplement my question to you in this fashion?

A Yes.

Q Now what was the last suggestion you made?

A That if provision has been made for the retirement of capital.

Q Yes.

A And provision made for the stability of income.

Q Yes.

A May I draw those conclusions, that it would resemble more accurately a public utility security.

Q Well would you?

A Yes I would.

Q That is why I thought you were answering the question rather than asking one.

A What I am getting at is, it has these protective features and that leads you to the public utility risk rather than an ordinary industrial risk.

Q Let me interrupt you, when I told you you might assume that in the rate there would be provision made for the amortization of the investment, you then say that that is a protection to the investor?

A Yes.

Q I wanted to be clear about that?

A Oh yes, that is a protective feature.

(Go to number)

Q When you say that there has been a stability of supply in the determination of the life of the field, that serves you again, I take it, to say that is a protection to the investor?

A Oh yes. I only mentioned stability of supply to indicate that there is stability of earnings.

Q Right?

A That there will be stability of earnings.

Q I am simply asking you, if I am wrong then your answer will suffer accordingly, but I am running the risk of asking you to make these assumptions with me?

A Yes.

Q And having made these assumptions, are you able to answer my question, or do you desire to have the matter further elaborated for you?

A As I understand it now, this security, the pipe line, would presumably be a public utility investment.

Q Yes?

A Now public utilities' services are sold at various rates according to the locality and other features. But would not that security resemble fairly accurately the security given to the Canadian Western Natural Gas Company here.

Q You certainly cannot go that far in asking me questions. Do I take it you feel that that does make it resemble it?

A Yes, I think so.

Q The only difficulty is you have a way of stating your conclusions in the form of questions.

A My difficulty is anyone quoting interest rates without knowing anything about the security is on pretty

dangerous ground.

Q You get all the necessary facts in your mind without venturing an opinion?

A My answer would be that if there is stability of revenue to provide for the return of capital and a proper interest profit, that that security I should think would resemble this Gas Company security and in that case the Public Utilities Board have established that 8½% gives a fair return on the investment.

Q In your opinion, now, just to complete your answer, and have it on the record, what in your opinion is a fair rate of return which should be allowed this investment?

A I think that is a fair return.

Q 8½%?

A With those protective features.

Q THE CHAIRMAN: Take an industrial. What is the return ordinarily expected in that as distinguished from a utility?

A Roughly utility companies throughout Canada - Eastern Canada I am referring to owing to the distinct situation out here - earns about 6% on the capital employed in the enterprise. That is a general figure but it is fairly close. Whereas an industrial enterprise will show earnings nearer 10% on the capital, the total capital employed. These are not the rates that these companies pay when they borrow funds, because they borrow - some companies might borrow 80% of the capital required and others only 50%.

Q After allowing for amortization you say that they should be allowed that much on their working capital, the

money invested?

A On the capital money invested they should have a return, an institution such as that pipe line, of 8½% at least with proper provision for the return of capital within a safe period.

Q MR. NOLAN: Mr. Tanner, you say that in order to answer the question that Mr. Frawley put to you, you want to get this operation and this pipe line on the basis of an ordinary public utility? You want to get it down to a public utility basis?

A Yes. Well I must......

Q You must get a starting point?

A Yes. I cannot analyze all the risks in the pipe line security.

Q Are there risks in a pipe line?

A I cannot say.

Q You might assume with me that there are?

A Oh yes, I would say that unless there is proper protection there are risks.

Q That is the reason for your insistence upon first stability of supplies, coupled with stability of earnings, and added to it stability of market. You want to know that these conditions are present?

A Oh yes. In a security of that type I must know that the income is sure. That it is going to be there.

Q Do you know that the income is there for this pipe line?

A I cannot answer that question. I do not know anything about the pipe line business.

Q Supposing that this commission or any other regulatory body says that the life of this field is 10, 15 or 20

E. H. Tanner.

years, and we ran out of oil in 5 years. Then where is the security on the pipe line? It has gone.

A Yes, it is not very good under those conditions.

Q Well you would not give it much value if there was no oil to transport through it?

A No, it would just have a salvage value.

Q That is the point I am trying to make with you, that your opinion that you are giving us, Mr. Tanner, is based first upon the assumption that there is a supply; secondly that that supply will give an adequate earning power to the Company?

A Yes.

Q And thirdly, that the market condition is constant?

A Yes. To sum up, that this Company has stability in revenue. Would that answer all those three points you brought up?

Q That is the Company has.....

A Stability of revenue. That is the all important thing.

Q Stability of revenue?

A Yes.

Q I think that does sum it up?

A Yes.

Q You say if it has stability of revenue it is in no worse position than the Gas Company?

A No.

Q You do say that?

A Yes.

Q You liken it to the Gas Company here?

A Yes.

Q It has stability of supply?

E. H. Tanner.

A Quite.

Q Do you know what the supplies of gas are in this Valley?

A No. But I am not concerned with that in giving this estimate. I just want to give you my impression - it because.....

Q You are assuming that the supply is there?

MR. FRAWLEY: Because he said.

A Because the Public Utilities Board have already investigated that.

Q MR. NOLAN: So when the Public Utilities Board says there is a supply for the Calgary Gas Company, it follows there is a supply of gas?

A For rate making purposes.

Q But they might be wrong might they not?

A Oh yes.

Q Yes. Then your rate has been unfair to the Company has it not?

A Yes.

Q Because you have amortized over a longer period, am I right?

A That is right.

Q Then you should have used, and you have not given the Company its adequate return on its capital investment within the proper period?

A That is right.

Q So one of the hazards that these companies have to encounter are the findings of Boards of Public Utilities. That is a hazard?

A Yes.

Q I think so too. Now, Mr. Tanner, if we get it down.....

THE CHAIRMAN: You would not expect those Boards to fix a rate on the theory that they were probably wrong in their premises?

A No.

Q MR. NOLAN: If they are wrong, and the supply is not there, the security vanishes?

A Right.

Q You say if you get it down, assuming supply, assuming earning power and assuming a market, which you summed up in the words, assuming stability of revenue, you say then it should get at least 8½%?

A Yes.

Q You base that on the Calgary Gas Company's rate?

A Quite.

Q There is not very much likely to happen to the market of the Canadian Western Natural Gas, Light, Heat & Power Company Limited is there?

A The market for their product?

Q Yes?

A No, I do not think so.

Q I would not think so either?

A No.

MR. FRAWLEY: What about coal?

Q MR. NOLAN: What do you know about the market for crude oil in Western Canada, Mr. Tanner? Anything? I am not trying to be impertinent?

A No. But frankly I only know what I read, as a casual observer.

Q That is all we all know. As a casual observer you do not know very much. You do know crop conditions have a very important effect upon it?

A I assume they would.

Q You will agree with me in this, that so far as the Calgary Gas Company is concerned, it has a franchise to sell gas to the citizens of this town?

A No, that is not so.

Q They haven't a franchise?

A No.

Q What have they got?

A Their franchise has now expired.

Q What have they got?

A They are operating under the jurisdiction of the Board of Public Utilities, and that is their greatest protection in that respect. The only security they have in that regard is that the Board of Public Utilities will not likely allow another Gas Company to come in and build another pipe line system.

Q They had a franchise once?

A Yes.

Q And that expired?

A Yes.

Q And it has not been renewed?

A No.

Q They are the only person doing business with the gas consumers in Calgary?

A Right.

Q They have their pipe laid, their mains and their laterals and their distribution system extends all over this city does it not?

A Yes.

Q To even the outlying parts?

A Yes.

Q Do you know percentage of the population use gas?

A No.

Q It must be very large?

A Yes, it is a very large percentage. Larger than it is in Edmonton. But I haven't those figures here.

Q And that gas is conveyed to them through the distribution system of the Canadian Western Natural Gas Company?

A Right.

Q All right, Mr. Tanner,

Q MR. FRAWLEY: Mr.Tanner, if you will assume with me, not as Mr. Nolan asked you to assume with him that the oil field suddenly disappeared - but if I may say so the more practical thing that it appeared that the oil production might be somewhat less than was in mind when the rate was set, could and would in all probability the regulatory body be able to do something about that?

A Oh yes, I should think so.

Q By doing what?

A Changing the rate.

Q By changing the rate upwards and amortizing on a different plan?

A Quite. As I understand it that is the attitude in connection with the Calgary Gas Company.

Q That is what regulatory bodies are for, as I understand it?

A Yes.

Q That is their business?

A Yes.

Q If similarly the market which was in view when the rate

was set failed in part, the market failed in part and the throughput of the line, in other words the earnings of the line went down, could and would in all likelihood the regulatory body do something about that?

A I would assume that they would. I believe that is their attitude.

Q By doing what again?

A By changing the rate,

Q By changing the rate up?

A Yes.

Q My learned friend was asking you - that is what you meant when you said you had no special knowledge of these factors, I take it you were leaving that to be reviewed by the regulatory body?

A Yes.

Q From time to time as the occasion demanded?

A Yes, that is the theory.

Q That is the theory behind public utility regulations?

A Behind this Calgary Gas Company regulation as I understand it.

Q When you say there is stability of earning, do I take it you mean that there is in the hands of the regulatory body, within some limits of course, the power to see to it that the earnings are maintained by increasing the rate?

A Yes.

Q MR. NOLAN: What do they do if the Company made a loss, Mr. Tanner. Supposing the rate is not adequate. Do you get it in the next year's rate?

A I cannot answer that.

Q Now Mr. Frawley put it to you that the market might fail in part. By that he means a diminishing market. You say increase the rate. That adds again to the cost to the consumer?

A Yes.

Q Do you think that is likely to increase the market that has been falling?

A I think that that is - my answer to that would not be of any value. My point is that the security of this investment being protected by that Board, it takes on a certain class, or takes on a certain standing. In other words, the theory behind this 8½% rate that they give the Gas Company is that the Board will have an interest in it and will watch it and if something happens that they cannot make any money they will give a better rate.

Q Supposing the worst came to the worst, and the supply of oil that they have in this Valley diminished completely and there was no oil in this Turner Valley?

A Yes.

Q And suppose there was oil found in this Province at a shallower depth and no oil in Turner Valley. Then you could not do much with the rate to give the Company back what it has lost could you?

A No. That is right.

Q That is a fact?

A That is a factor.

Q In the second place, if you start to lose your market, you cannot build a market up by increasing the pipe line rate and increasing the cost of the thing to the consumer can you?

A You cannot build a market up, no.

Q Your market will keep on going down?

A Perhaps.....

Q And your revenue will keep on going down in spite of an increased rate?

A I cannot assume that.

Q Well perhaps that is obvious.

Q MR. COMMISSIONER LIPSETT: Are there any shares of the Gas Company on the open market?

A Yes.

Q Quoted on the market?

A Yes. They are freely traded at, the current quotation on that is 98 bid. Yield 6.17.

Q A yield of what?

A 6.17.

Q That is less than 6¼?

A Yes. Just over 6-1/8% is the yield. It is the senior security of the Gas Company.

Q When you say senior security is that a bond?

A No, it is preferred stock., There are no bonds outstanding of the Calgary Gas Company.

Q That gives a return to the man who goes and buys at the market 6-1/7%?

A 6.17 at that price.

Q MR. NOLAN: Is there a common share also?

A Yes.

Q What are they worth?

A They are not quoted, they are privately held by a holding company.

Q They are not on the market?

E. H. Tanner.

A They are not on the market, not listed and not dealt in.

Q You do not know what they are selling at?

A No, I do not know what they are worth.

MR. FRAWLEY: I have time, I think, Mr. Chairman to put in a memorandum from the Consumers' Co-operative Refineries Limited at Regina. I quite appreciate that this Company is not here.

MR. NOLAN: Then sir, if the Company is not here I am going to object to this memorandum going in. We have tried to carry on these proceedings with some degree of formality, and it seems to me that if a Royal Commission is set up in Alberta for the purposes of inquiring into any matter pertaining to the oil industry, those persons who have some problem to present should pay the Commission the compliment of coming forward in person to present that.

MR. FRAWLEY: I have no views on the subject. I was asked to present this Memorandum to the Commission. I am entirely in the Commission's hands as to whether it is received or not.

THE CHAIRMAN: Who is asking you to present this Memorandum?

MR. FRAWLEY: The Consumers' Co-operative Refineries Limited of Regina.

THE CHAIRMAN: Is that a refining company?

MR. FRAWLEY: A refining company in Regina, using Turner Valley crude. I invited them to come and make the presentation in person, but they felt presumably - they replied they did not feel they

were warranted in.- well what he said was "We stated our case in our written memorandum just as emphatically as we could have presented it verbally."

THE CHAIRMAN: They may have presented it very emphatically, but firstly they do not propose to present it under oath, and secondly they are not present to submit to cross-examination upon that which they do present.

MR. FRAWLEY: That is quite so.

THE CHAIRMAN: I wonder, Mr. Frawley, if they appreciate - we do not want to reject the evidence, but we certainly have tried to be informal in our proceedings to date, but there are some limits?

MR. FRAWLEY: Yes.

THE CHAIRMAN: We have received magazines and documents of every kind and character, but here is another refinery asking us to accept a memorandum. Now nothing turns on accepting a memorandum, but the question is will they realize it will have little or slight weight with us when accepted and put in in this fashion, unsworn, and the person who asks or invites us to give value to it not submitting to cross-examination.

MR. FRAWLEY: They should know, Mr. Chairman, because I invited them to come and told them practically that.

THE CHAIRMAN: I see.

MR. FRAWLEY: I supposed that that would be so.

THE CHAIRMAN: Well Mr. Frawley, we think there are limits, and we think that limit has

been reached when a refinery asks us to accept a statement which they are not prepared to send someone to swear to, and which you, taking the responsibility as Commission Counsel, apparently are not prepared to accept the responsibility of expending the money to bring them here, then we in our turn are not going to take the responsibility of receiving it, because it may affect our minds and it would be most unjust to anyone who is opposed in interest if it should affect our minds in the circumstances in which it is put in. You will notify them if they have something to say that is of value to this Commission, the Commission will be delighted to hear them. If you consider their evidence of value, perhaps you should bring them here. If you do not think it is of sufficient value to bring them here at the expense of the country, we cannot think it of sufficient value that we should put weight upon it and use it, perhaps, to the prejudice of someone else who has had no opportunity whatever to cross-examine the framers of this document upon that which they put forward. So we will reject it. We will rise now.

(At this stage the Hearing was adjourned until 10.30 A.M. February 9th, 1939).

....
....